FINANCIAL ACCOUNTING STANDARDS BOARD
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116
Telephone: 203-847-0700 *Fax*: 203-849-9470
Internet address: eitf@fasb.org or dor@fasb.org

January 8, 2014

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the November 14, 2013 meeting of the FASB Emerging Issues Task Force and an inventory of open issues for future EITF meetings. Also included as exhibits are the Accounting Standards Updates for Issues 12-G, 12-H, 13-B and 13-E, and the proposed Accounting Standards Update for Issue 13-F.

Confidential marked versions of the exhibits showing changes from the December 11, 2013 Final Drafts are being distributed under separate cover. After your review, please discard the confidential marked versions.

Board Ratification
As you know, on Wednesday, December 11, 2013, the Board ratified the consensuses reached by the Task Force on Issues 12-G, 12-H, 13-B and 13-E. The Accounting Standards Updates for those Issues are expected to be posted to the FASB website the week of January 13, 2014. The Board also ratified the consensus-for-exposure reached by the Task Force on Issue 13-F. The Board approved 60-day exposure periods for the proposed Update. The proposed Update is expected to be posted to the FASB website on January 10, 2014.

The next EITF meeting is scheduled for March 13, 2014. The extra EITF meeting date reserved for January 16, 2014, will not be utilized.

Please call me at 203.956.5212 if you have any questions.

Sincerely,

Daghan Or
Practice Fellow
dor@fasb.org

Emerging Issues Task Force
Meeting Minutes
November 14, 2013

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MINUTES OF THE NOVEMBER 14, 2013 MEETING OF THE FASB EMERGING ISSUES TASK FORCE

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, November 14, 2013
Starting Time: 8:00 a.m.
Concluding Time: 4:15 p.m.

Task Force Members Present:
Susan M. Cosper (Chairman)
John M. Althoff
Mark M. Bielstein
James G. Campbell[1]
Terri Z. Campbell
Alexander M. Corl
Jackson Day
L. Charles Evans
Stuart H. Harden
Carl Kampel
Mark LaMonte
Lawrence J. Salva
Matthew L. Schroeder
Ashwinpaul C. (Tony) Sondhi
Robert Uhl
Daniel Murdock (SEC Observer)
*Richard C. Paul (FinREC Observer)[1]
*Diane Rubin (PCC Observer)[1]

Task Force Members Absent:
None

* For certain issues only.

[1] Participated by telephone.

Others at Meeting Table:
Russell G. Golden, FASB Board Member
Daryl E. Buck, FASB Board Member
James L. Kroeker, FASB Board Member
Thomas J. Linsmeier, FASB Board Member
R. Harold Schroeder, FASB Board Member
Marc A. Siegel, FASB Board Member
Shelly C. Luisi, SEC Senior Associate Chief Accountant
Daghan Or, FASB Practice Fellow
* Meredith A. Brown, FASB Practice Fellow
* Elizabeth Gagnon, FASB Project Manager
* Rahul Gupta, FASB Project Manager
* Jennifer Hillenmeyer, FASB Practice Fellow
* Lee Klumpp, FASB Practice Fellow
* Sean May, FASB Practice Fellow
* Stephen C. McKinney, FASB Practice Fellow
* Lauren Mottley, FASB Associate Practice Fellow
* Rosemarie Sangiuolo, FASB Project Manager

* For certain issues only.

ADMINISTRATIVE MATTERS

- An FASB staff member announced that any consensuses-for-exposure reached at this meeting and any consensuses-for-exposure reached at prior meetings that are affirmed as consensuses at this meeting will be considered by the Board for ratification and exposure for public comment or ratification and issuance as a final Accounting Standards Update, respectively, at the December 11, 2013 Board meeting.

- The EITF chairman welcomed the new SEC Observer, Mr. Daniel Murdock, Deputy Chief Accountant, to the EITF. Mr. Murdock replaces Mr. Paul A. Beswick, who was recently appointed SEC Chief Accountant.

- An FASB staff member announced that the next regularly scheduled EITF meeting will be held on Thursday, March 13, 2014. The next EITF Agenda Committee meeting will be held on December 15, 2013.

- The Extra EITF meeting date reserved for January 16, 2014, will not be utilized.

DISCUSSION OF AGENDA TECHNICAL ISSUES

Issue No. 12-F

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

Dates Discussed: January 17, 2013, March 14, 2013, November 14, 2013

Introduction

1. Current U.S. GAAP offers limited guidance for determining when, if ever, the cost of acquiring an entity should be used to establish a new accounting and reporting basis (pushdown) in the acquired entity's separate financial statements. SEC Staff Accounting Bulletin Topic No. 5.J, *New Basis of Accounting Required in Certain Circumstances*, EITF Topic No. D-97, "Push-Down Accounting," and other comments made by the SEC Observer at EITF meetings (which are codified in paragraphs 805-50-S99-1 through S99-4), provide guidance for SEC registrants on pushdown accounting. Additionally, certain financial institutions are required by their regulators to apply pushdown accounting in certain circumstances. The SEC staff's guidance indicates that if a purchase transaction results in an entity becoming substantially wholly owned, its standalone financial statements should be adjusted to reflect the basis of accounting of the acquirer. The SEC staff's guidance further states that pushdown accounting is (a) required when 95 percent or more of an entity's ownership is acquired, (b) permitted when 80 to 95 percent is acquired, and (c) prohibited when less than 80 percent is acquired. The existence of other interests, such as public debt, preferred stock, or a significant noncontrolling interest, however, may affect the acquired entity's ability to apply pushdown accounting. The SEC staff's guidance also indicates that holdings of investors who both mutually promote the acquisition and collaborate on the subsequent control of the acquired entity (collaborative groups) should be aggregated for the purpose of determining whether the acquired entity has become substantially wholly owned.

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

3. Since the SEC staff's guidance is only mandatory for SEC registrants, diversity in practice exists in the application of pushdown accounting by entities that are not SEC registrants. In

addition, comparability issues have arisen due to the option in the SEC guidance to apply pushdown accounting when between 80 and 95 percent of an entity has been acquired. The FASB staff also notes that practice issues related to the application of pushdown accounting continue to arise as a result of the limited guidance, including the absence of a basis for conclusions and a principle for when pushdown accounting should be applied.

Issue

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

Working Group Recommendation – Scope

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

Scope

6. The Issue addresses whether a new basis of accounting (pushdown) should be established in the separate financial statements of an entity when there is a change-in-control event in which an acquirer obtains control of the entity.

Prior EITF Discussion

7. At its January 17, 2013 meeting, the Task Force discussed the following three alternative views regarding the application of pushdown accounting:

   a. A new accounting basis should be established when an acquirer obtains *substantially all* (defined in the Master Glossary in the context of the concepts underlying the leases classification criteria of Topic 840 as 90 percent) of the controlling financial interest in a reporting entity and thereby obtains control over the form of ownership of the reporting entity
   b. A new accounting basis should be established when an acquirer obtains control of the reporting entity
   c. A new accounting basis should not be established in an acquired entity's separate financial statements.

8. The Task Force expressed a preference for expanding the use of pushdown accounting to change-in-control events and directed the FASB staff to perform user outreach to understand the relevance of pushdown accounting in standalone financial statements of an acquired entity. The

Task Force asked the staff to solicit feedback from private company preparers and users as well as from the Private Company Council (PCC) members.

9. At the March 14, 2013 EITF meeting, the Task Force discussed the feedback received from users of both public and nonpublic entity financial statements and the PCC that indicated mixed views on whether the new basis in the standalone financial statements of an acquired entity provides beneficial information for investment decision making. Some Task Force members indicated that the threshold for requiring pushdown accounting should remain high and should only be applied when there is a transaction, and, therefore, supported View A. Other Task Force members preferred a change-in-control threshold to apply pushdown accounting. Those Task Force members preferred a lower threshold because they believe that it would be operationally beneficial for both the acquiring entity and the subsidiary to not have to maintain two different sets of books. Additionally, one Task Force member noted that in determining the parent's accounting, a change in control is considered a significant event accounted for at fair value and pushdown accounting would align the accounting between the parent and subsidiary. Some Task Force members also commented that application of pushdown accounting to standalone financial statements of the acquired entity (subsidiary) would help users analyze its financial statements in the context of the financial statements of the acquirer (parent).

10. The Task Force directed the FASB staff to develop a model under which pushdown accounting could be optionally applied when an acquirer obtains control of a reporting entity.

Current EITF Discussion

Threshold of Applying Pushdown Accounting

11. At the November 14, 2013 EITF meeting, the Task Force discussed the threshold of applying pushdown accounting and tentatively decided that pushdown accounting would be required for a public business entity if the change-in-control event causes the entity to become substantially wholly owned by the acquirer. The Task Force also tentatively decided that all entities (that is, both public business entities and non-public entities) would have the option to apply pushdown accounting in their separate financial statements upon occurrence of a change-in-control event in which an acquirer obtains control of the entity. One Task Force member objected to the application of pushdown accounting upon change-in-control events on the basis that there has not been demonstrated user support on the use of pushdown accounting.

12. In addition, the Task Force directed the staff to reconvene the working group on this Issue and research the following issues regarding the application of pushdown accounting:

a. Definition of "substantially wholly-owned," including the related issue of collaborative groups whereby ownership is obtained by multiple parties
b. Application of pushdown accounting when an entity becomes substantially wholly-owned as a result of a series of transactions over time (step acquisitions)
c. Potential exceptions for the application of pushdown accounting at the substantially wholly owned level, such as when there is public debt or other significant interest holders in the acquired entity.

d. Other events or circumstances in which pushdown accounting should be required or precluded.

Application of Change-In-Control-Based Pushdown Accounting Model

13. The Task Force discussed a series of other issues pertaining to the change-in-control-based pushdown accounting model and made the following tentative decisions:

a. Consistent with business combinations accounting, a change in control event for purposes of pushdown accounting would include events in which control is obtained by the acquirer without transfer of consideration. The acquired entity would follow the recognition, measurement, and disclosure guidance in Topic 805, Business Combinations, for its assets, liabilities, and equity instruments, as applicable.
b. Acquisition-related debt incurred by the acquirer would not be recognized in the acquired entity's separate financial statements unless the acquired entity is required to recognize a liability for the debt in accordance with other applicable U.S. GAAP. The Task Force directed the staff to develop application guidance to clarify when such debt would be recognized as a liability of the acquired entity.
c. An acquired entity would recognize goodwill that arises from the change in control event. However, bargain purchase gains, if any, would not be recognized in the acquired entity's income statement.

Status

14. Further discussion on this Issue will be held at a future meeting.

Issue No. 12-G

Title: Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity

Dates Discussed: September 11, 2012, March 14, 2013, June 13, 2013, November 14, 2013

Introduction

1. In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, which has since been codified through Accounting Standards Update No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. Under the amendments in Update 2009-17, if a reporting entity holds a controlling financial interest in a variable interest entity (VIE), that entity is determined to be the primary beneficiary of the VIE and is required to consolidate the VIE. Characteristics of a controlling financial interest in a VIE are (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance (the power criterion) and (b) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE (the losses/benefits criterion).

2. As a result of the amendments in Update 2009-17, reporting entities are often required to consolidate collateralized financing entities (CFEs), such as collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) entities. These CFEs are variable interest entities that hold various types of debt instruments and issue beneficial interests that only have recourse to the financial assets held by the CFE. Generally, all of the beneficial interests in a CFE, including the most subordinate residual interests, are classified as liabilities under U.S. GAAP (that is, the CFE has no equity). In some instances, the reporting entity may not own any of the beneficial interests, but may consolidate the CFE for other reasons; including a subordinated fee structure.

3. Upon the adoption of the amendments in Update 2009-17, many reporting entities elected the fair value option under Subtopic 825-10, Financial Instruments—Overall, to account for all eligible financial assets and financial liabilities of CFEs, which were consolidated upon the effective date of Update 2009-17. In many instances, when the entity was initially consolidated the aggregate fair value of the assets of the CFE exceeded the aggregate fair value of the CFE's beneficial interests (liabilities). Although the liabilities of the CFE only had recourse to the assets of the CFE, differences between the fair value of the assets and the fair value of the liabilities could result from the following: (a) liquidity discounts that were inherent in the exit price for the CFE's liabilities and not in the CFE's assets, (b) differences between the duration of the CFE's assets and the duration of the CFE's liabilities, or (c) principal markets for the assets and the liabilities that were not identical.

4. Accordingly, questions existed about how a reporting entity should account for the difference between the fair value of the financial assets and the fair value of the financial liabilities of the CFE required to be consolidated upon adoption of the amendments in Update 2009-17, when the reporting entity does not hold all of the beneficial interests in the CFE.

5. The transition guidance in Update 2009-17 required that the reporting entity record the difference between the financial assets and financial liabilities (and the amount of any previously recognized interest in the CFE, if any) of a consolidated CFE as a cumulative effect adjustment to the retained earnings as of the beginning of the year of adoption. However, some reporting entities recorded the initial difference arising from consolidating the CFE under Update 2009-17 directly to appropriated retained earnings rather than as a cumulative effect adjustment to retained earnings, believing that such an approach more accurately reflected the reporting entity's economic position when the reporting entity does not own any of the beneficial interests and the CFE has not issued any equity interests.

6. In accordance with paragraph 825-10-35-4, subsequent gains and losses as a result of the change in fair value of the financial assets and financial liabilities of the CFE should be recorded within the reporting entity's consolidated net income (loss). However, practice has developed regarding the presentation of that subsequent change in fair value of the financial assets and financial liabilities of a consolidated CFE whereby the portion of such change that is not attributable to the reporting entity is allocated to the noncontrolling interest holders to arrive at the net income (loss) attributable to common shareholders. The net income (loss) allocated to the noncontrolling interest holders is then reclassified to appropriated retained earnings in the statement of changes in equity. Accordingly, under that approach, the change in fair value of the consolidated financial assets and financial liabilities subsequent to initial consolidation under the amendments in Update 2009-17 is attributed to the beneficial interest holders of the CFE and is excluded from the reporting entity's net income attributable to common shareholders and the earnings per share calculation.

7. For CFEs that are initially consolidated subsequent to the effective date of Update 2009-17,[1] there is diversity in practice regarding the accounting by a reporting entity for the difference between the fair value of financial assets and the fair value of the beneficial interests (financial liabilities) of CFEs when the reporting entity becomes the primary beneficiary. Some reporting entities initially record that difference in the consolidated statement of comprehensive income as a gain or loss and allocate such amount to the noncontrolling interest holders in arriving at net income (loss) available to common shareholders. Such amounts are then reclassified to appropriated retained earnings in the statement of changes in equity. Other reporting entities initially record the difference as a direct adjustment to appropriated retained earnings in the statement of changes in equity (similar to the practice that developed for CFEs that were consolidated upon the adoption of the amendments in Update 2009-17).

Issues

8. The issue is how a reporting entity should initially and subsequently account for the difference between the fair value of the financial assets and the fair value of the financial liabilities of a consolidated CFE.

Scope

[1] Examples of situations in which a reporting entity would be required to subsequently consolidate a CFE include (a) a reassessment of a previous consolidation conclusion, (b) a business combination, and (c) the acquisition of a management contract that results in the consolidation of a CFE.

9. This Issue would apply to all entities that are required to consolidate a CFE under the guidance in Subtopic 810-10 and measure all eligible financial assets and financial liabilities of the CFE at fair value in their consolidated financial statements. All reporting entities that consolidate a collateralized financing entity would be able to elect, at the date of adoption of the amendments in the proposed Update resulting from this Issue, to measure all eligible financial assets and financial liabilities of the collateralized financing entity at fair value (the "fair value option") in accordance with Topic 825, Financial Instruments

Prior EITF Discussion

10. At the June 11, 2013 EITF meeting, the Task Force discussed concerns expressed during the fatal flaw review of the draft final Update resulting from this Issue. The concerns related to (a) the use of the term "net risk exposure" to describe a reporting entity's interest in a CFE, (b) the measurement consequences when the fair value of the financial liabilities is more observable than the fair value of the financial assets and the reporting entity holds nonfinancial assets, and (c) how the prospective transition method should be applied. After deliberating those concerns, the Task Force decided to amend certain provisions of the draft final Update and reached a consensus-for-exposure to expose for public comment a revised proposed Update.

11. The Task Force reached a consensus-for-exposure that the following statement should be removed from the revised proposed Update: "the fair value of the group of financial assets and financial liabilities of a CFE should be measured consistently with the way in which market participants would price the reporting entity's net risk exposure at the measurement date." Instead of that guidance, the Task Force decided a reporting entity should be required to use the fair value of the financial assets and the carrying value of any nonfinancial assets of a CFE to determine the value of the CFE's financial liabilities. The Task Force specified that a reporting entity that consolidates a CFE should measure the financial liabilities of the CFE using the following calculation:

The sum of the following two amounts:

a. The fair value of the financial assets held by the collateralized financing entity

b. The carrying value of any nonfinancial assets held by the collateralized financing entity

Less the sum of the following two amounts:

a. The sum of the fair value of financial assets and the carrying value of nonfinancial assets that relates to the beneficial interest owned by the reporting entity

b. The carrying value of any beneficial interests that represent compensation for services rendered by the reporting entity.

12. The Task Force decided that a reporting entity should allocate this calculated value to the individual financial liabilities on a reasonable and consistent basis using a methodology appropriate in the circumstances. The Task Force considered but decided against measuring the fair value of the financial assets based on the fair value of the financial liabilities because the resulting value of the financial assets would inappropriately include an amount relating to any nonfinancial assets held by the collateralized financing entity.

13. The Task Force reaffirmed its previous consensus that beneficial interests that represent compensation for services (such as management fees) and nonfinancial assets that are being held temporarily by a CFE as a result of default by the debtor on the underlying debt instruments held as assets by the CFE or in an effort to restructure the debt instruments held as assets by the CFE, should be measured in accordance with other applicable U.S. GAAP. In reaching that decision, the Task Force discussed whether the amendments in the revised proposed Update should require any such nonfinancial assets held temporarily by a CFE to be measured at fair value or at carrying value in accordance with other U.S. GAAP. One Task Force member emphasized that using the carrying value and not the fair value of nonfinancial assets held temporarily by the CFE to determine the value of the financial liabilities of the CFE may not be representative of the economics because a loss (or gain) would be recognized if and when a reporting entity buys or sells its beneficial interests (other than beneficial interests that represent compensation for services) in the CFE. A Board member noted, however, that other areas of U.S. GAAP require a fair value measurement for nonfinancial assets, and in many instances sales of similar instruments result in a gain or loss.

14. As previously decided by the Task Force, the amendments in the revised proposed Update would apply to all entities that (a) are required to consolidate a CFE under the guidance in Subtopic 810-10 and (b) measure all eligible financial assets and financial liabilities of the CFE at fair value in their consolidated financial statements. To apply the amendments in the revised proposed Update, all reporting entities that consolidate a CFE may elect, at the date of adoption of the amendments in the revised proposed Update, to measure all eligible financial assets and financial liabilities of the CFE at fair value (the "fair value option") in accordance with Topic 825. The Task Force clarified that a reporting entity would be required to apply the amendments in the revised proposed Update if it had previously elected to or was required to measure the financial assets and financial liabilities of the CFE at fair value. A reporting entity that previously had not elected to measure the financial assets and financial liabilities of the CFE at fair value could elect the fair value option at the date of adoption of the amendments in the revised proposed Update and apply the amended guidance. Reporting entities that have not previously elected and that do not elect on the adoption date the fair value option for its CFE's financial assets and financial liabilities would not be within the scope of the revised proposed Update and would continue to apply other relevant U.S. GAAP when consolidating the CFE.

Current EITF Discussion

15. At the November 14, 2013 EITF meeting, the Task Force decided that there should not be a measurement difference between the financial assets and the financial liabilities in the initial consolidation of a collateralized financing entity. Therefore, a reporting entity should initially measure both the financial assets and the financial liabilities of the collateralized financing entity using the more observable of the fair value of the financial assets and the fair value of the financial liabilities.

16. For subsequent measurement, the Task Force noted that using other applicable Topics may also be appropriate in some instances; therefore, the Task Force decided to allow a reporting entity to make an accounting policy election to either (a) measure both the financial assets and the financial liabilities of the collateralized financing entity using the more observable of the fair

value of the financial assets and the fair value of the financial liabilities under this guidance or (b) apply other relevant Topics (other than the fair value option in Topic 825). The Task Force decided that the subsequent measurement election should be applied consistently to all consolidated collateralized financing entities because consistent application is critical to the understandability of the reporting entity's financial statements by users. While structures may vary by collateralized financing entity, the Task Force recognized the difference in structures by allowing an entity to use the more observable of the fair value of the financial assets and the fair value of the financial liabilities.

17. The Task Force discussed that the guidance in the Update resulting from this Issue should not be applied to transfers of financial assets to a consolidated transferee that do not meet the conditions for a sale and, as a result, the transfer is required to be accounted for by the reporting entity parent as a secured borrowing with pledge of collateral under paragraph 860-30-25-2. The Task Force noted that if the transfer does not meet the sale accounting conditions, the financial asset would not be included in a collateralized financing entity but would be an asset held by the reporting entity parent for accounting purposes. Accordingly, the scope of the guidance would not apply to those financial assets.

18. The Task Force discussed whether the scope of the Update resulting from this Issue should be broadened to apply to all reporting entities that are required to consolidate VIEs under Subtopic 810-10. The Task Force determined that the diversity in practice primarily relates to a reporting entity's accounting for the difference between the fair value of financial assets and the fair value of financial liabilities of collateralized financing entities, as defined. Because there is more direct guidance in U.S. GAAP on the accounting for noncontrolling interests in other types of VIEs, the Task Force determined that the scope of the Update should not be broadened beyond collateralized financing entities.

19. To eliminate the measurement differences and the related diversity in practice, the Task Force decided to provide guidance for the initial and subsequent measurement of the financial assets and the financial liabilities of a consolidated collateralized financing entity. When this guidance is applied, the more observable of the fair value of the financial assets and the fair value of the financial liabilities should be used. The financial liabilities of the consolidated collateralized financing entity included in the consolidated financial statements include only those financial liabilities due to third-party beneficial interest holders (that is, beneficial interests held by the reporting entity are eliminated in consolidation). Additionally, a reporting entity's consolidated statement of income should reflect a reporting entity's own economic interests in the collateralized financing entity, including changes in the fair value of beneficial interests retained by the reporting entity.

20. If the fair value of the financial assets of the collateralized financing entity is more observable, the Task Force determined those financial assets should be measured at fair value and the financial liabilities should be measured in consolidation as (a) the sum of the fair value of the financial assets and the carrying value of any nonfinancial assets held temporarily, less (b) the sum of the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services) and the reporting entity's carrying value of any beneficial interests that represent compensation for services. The resulting amount should be

allocated to the individual financial liabilities using a reasonable and consistent methodology. The Task Force decided that this measurement for financial liabilities of a collateralized financing entity is appropriate because the beneficial interests (representing financial liabilities) generally have recourse only to the financial assets. When the fair value of the financial assets is more observable, the Task Force acknowledged that in many instances the fair value of a reporting entity's beneficial interest may need to be determined based on a reasonable allocation of the fair value of the financial assets.

21. The Task Force also received input from stakeholders that in many instances the fair value of financial liabilities of a collateralized financing entity is more observable than the fair value of its financial assets. This is the case, for example, in many mortgage-backed structures in which the underlying assets are often restricted from sale and thus have little to no observable transactions to be relied upon in a fair value measurement. On the other hand, the beneficial interests representing financial liabilities may be traded, and therefore the inputs to their fair value measurement can be more observable. The Task Force therefore decided that if the fair value of the financial liabilities of the collateralized financing entity is more observable, the financial liabilities should be measured at fair value and the financial assets should be measured as (a) the sum of the fair value of the financial liabilities, the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services), and the reporting entity's carrying value of any beneficial interests that represent compensation for services, less (b) the carrying value of any nonfinancial assets held temporarily. The resulting amount should be allocated to the individual financial assets using a reasonable and consistent methodology.

22. The Task Force also decided that a reporting entity that consolidates a collateralized financing entity and elects to apply this guidance for subsequent measurement should recognize in its consolidated net income (loss) only amounts that reflect changes in its own economic interests in the consolidated collateralized financing entity. A reporting entity may have various economic interests in a consolidated collateralized financing entity including but not limited to direct ownership of beneficial interests and rights to compensation for services provided to the collateralized financing entity's beneficial interest holders. The Task Force explicitly required that the changes in the fair value of any beneficial interests (other than those that represent compensation for services) retained by the reporting entity be reflected in the consolidated net income (loss) of the reporting entity. Many stakeholders noted that the fair value of a reporting entity's retained beneficial interest generally is measured each reporting period and is relevant to the users of financial statements because it reflects the reporting entity's net economic risks. The Task Force also clarified that interests that represent compensation for services, such as management fees or servicing fees, should be accounted for under other applicable Topics because doing otherwise (such as measuring all of those transactions at fair value) would be inconsistent with other similar transactions, would potentially distort the results of the reporting entity that have other similar transactions, and therefore could confuse users of the reporting entity's financial statements.

23. The Task Force concluded that a reporting entity that consolidates a collateralized financing entity should not be permitted to elect to measure the financial assets and the financial liabilities of the collateralized financing entity using the fair value option under Topic 825 on financial

instruments whether or not the reporting entity elects to apply the subsequent measurement guidance in the Update resulting from this Issue. The Task Force decided to eliminate the ability to elect the fair value option for the financial assets and financial liabilities of a collateralized financing entity and replace it with the elective subsequent measurement guidance in the Update, because doing so promotes comparability among entities. Retaining the fair value option would result in multiple permutations of measurement methods for financial assets and financial liabilities, which would decrease comparability and create the potential for the types of measurement discrepancies between assets and liabilities that the Task Force is attempting to resolve with the Update.

24. As of the date of this discussion, the Board's project on the recognition and measurement of financial instruments includes measurement guidance in circumstances in which financial assets would be used to settle nonrecourse financial liabilities. In addition, the Board's project on the determination of principal or agent with respect to consolidations may result in the deconsolidation of certain collateralized financing entities. Therefore, those projects, when finalized, may affect the amendments in the Update resulting from this Issue. The Task Force debated whether it was appropriate to reach a consensus on this Issue given its interaction with those projects. However, because the ultimate timing and outcome of those projects is uncertain and many stakeholders indicated that the diversity in practice needs to be addressed imminently, the Task Force decided to move forward with a consensus.

25. The Task Force agreed that a reporting entity that consolidates a collateralized financing entity and measures the financial assets or the financial liabilities of the collateralized financing entity using this guidance should disclose all of the information required by Topic 820, Topic 825, and other relevant Topics, as applicable, for the fair value of either the financial assets or the financial liabilities, whichever is more observable, and for any beneficial interests retained by the reporting entity (other than those that represent compensation for services). The Task Force added the requirement to disclose the fair value of a reporting entity's retained beneficial interests because (a) it is a required fair value measurement needed to determine the value of financial assets and financial liabilities using this guidance and (b) it is a relevant measurement for users to understand because it represents the reporting entity's net economic risk in a collateralized financing entity. The Task Force clarified that the disclosure guidance in the Update resulting from this Issue should be applied by reporting entities only for their consolidated collateralized financing entities within the scope of this guidance and should not be analogized to in other circumstances.

26. The Task Force also decided that a reporting entity that measures the financial assets and the financial liabilities of a consolidated collateralized financing entity using the measurement guidance in the Update resulting from this Issue should not be required to comply with the fair value measurement disclosures in Topic 820 and Topic 825 for the amount that is derived from the measurement of the more observable fair value of the financial assets and the financial liabilities because the derived amount would not necessarily represent fair value. For the less observable of the fair value of the financial assets and the fair value of the financial liabilities, the Task Force decided that a reporting entity is only required to disclose that the amount was determined based on the more observable fair value of the financial assets and the financial liabilities.

Transition Method

27. The Task Force decided that reporting entities may apply the amendments in the Update resulting from this Issue using a modified retrospective approach. In addition, the Task Force agreed that reporting entities may apply the amendments retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in Update 2009-17 were initially adopted. The Task Force clarified that under the modified retrospective approach, a reporting entity should remeasure the financial assets or the financial liabilities using this guidance as of the beginning of the annual period of adoption and record a cumulative-effect adjustment to equity.

Effective Date and Early Application

28. The Task Force decided that the amendments in the Update resulting from this Issue should be effective for public business entities for annual periods, and interim reporting periods within those years, beginning after December 15, 2014. For entities other than public business entities, because of the timing of issuance of the Update, their resource limitations, the potential opportunity for them to learn from public entities about implementing the amended guidance, and their learning cycle, the Task Force decided that the amendments in the Update should be effective one year after the first annual period in which public business entities are required to adopt them, that is, for the annual period beginning after December 15, 2015, and interim periods within annual periods beginning after December 16, 2016. The Task Force decided to permit early adoption of the amendments to eliminate existing diversity in practice as soon as is practicable.

Board Ratification

29. At its December 11, 2013 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

30. No further EITF discussion is planned.

Issue No. 12-H

Title: Accounting for Service Concession Arrangements

Dates Discussed: January 17, 2013; June 11, 2013; November 14, 2013

Introduction

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

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

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

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

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

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

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

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

Issues

7. This Issue addresses whether an operating entity should account for a service concession arrangement as a lease under Topic 840.

Scope

8. This Issue applies to the accounting by an operating entity of a service concession arrangement that is entered into with a public-sector entity grantor when the arrangement contains both of the following conditions:

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

Prior EITF Discussion

9. At the June 11, 2013 EITF meeting, the Task Force discussed its tentative conclusions reached at the January 17, 2013 EITF meeting. One Task Force member suggested that an operating entity should first apply the guidance in Topic 840 to determine whether a service concession arrangement is a lease and that this Issue should not amend Topic 840 to explicitly exclude service concession arrangements from its scope. Other Task Force members, however, stated that requiring operating entities to assess whether a service concession arrangement is a lease under Topic 840 would not provide any more clarity to constituents because of the difficulty in making such an assessment, which is why this Issue is being considered by the

EITF. Those Task Force members also stated that explicitly excluding service concession arrangements from the scope of Topic 840 would be consistent with the tentative decisions reached by the FASB and the IASB in their joint project on leases. The Task Force reached a consensus-for-exposure that a service concession arrangement within the scope of this Issue should not be accounted for as a lease under Topic 840.

10. The Task Force concluded that providing determinative guidance that a service concession arrangement that is within the scope of this Issue is not a lease would reduce the diversity that occurs in practice. In addition, the Task Force confirmed its tentative conclusion reached at the January 17, 2013 EITF meeting that the accounting for service concession arrangements should be based on whether the operating entity controls the infrastructure that is being used to provide the public service. In a service concession arrangement within the scope of this Issue, an operating entity does not have the right to control the use of the grantor's infrastructure.

11. The Task Force concluded that an operating entity would look to other relevant Codification Topics, as applicable, to account for the various aspects of a service concession arrangement. Some Task Force members indicated a preference to expand the scope of this Issue to include comprehensive guidance about how an operating entity should account for those aspects. However, the Task Force considered that many of the principles in current U.S. GAAP would direct preparers to the most appropriate guidance for their specific service concession arrangement. The Task Force also noted that some aspects of a service concession arrangement are currently being addressed in other ongoing FASB projects (for example, the FASB and IASB joint project on revenue recognition).

Current EITF Discussion

12. At the November 14, 2013 EITF meeting, the Task Force decided to limit the scope of this Issue and the Update resulting from this Issue to service concession arrangements in which the grantor is a public-sector entity because those are the types of arrangements for which guidance is primarily being sought. The Task Force concluded that the accounting for a service concession arrangement in which the grantor is not a public-sector entity is not a prevalent issue in practice and that expanding the scope may delay the issuance of the amendments. The Task Force noted that if guidance is needed for other types of service concession arrangements, a separate project could be undertaken at a later date.

13. The Task Force decided that the amendments in the Update resulting from this Issue should address only arrangements in which (a) the grantor controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price and (b) the grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

14. A key feature of many service concession arrangements is the public service nature of the obligation undertaken by the operator. The public service is intended to benefit the general public and accomplish a public duty or responsibility. The Task Force concluded that those conditions are intended to preserve the public use objective of the infrastructure both during and after the term of the arrangement and that those conditions generally are met in most of the

service concession arrangements for which guidance is being sought. The Task Force considered defining the scope on the basis of the public-service nature of the arrangement instead of the type of grantor but decided that such a scope distinction would be overly subjective and therefore difficult to apply.

15. The Task Force considered in its deliberations how this Issue interacts with Topic 980, Regulated Operations. Regulated operations and service concession arrangements share the feature that the price that can be charged for the service is determined by the grantor. However, the Task Force observed that the scope of Topic 980 differs from the scope of this Update. In regulated operations the infrastructure is typically controlled by the operating entity and the residual interest is retained by the operating entity, unlike service concession arrangements. The Task Force concluded that most rate-regulated entities that are within the scope of Topic 980 would not typically be accounted for under the proposed Topic on service concession arrangements. If an operating entity is within the scope of Topic 980, that entity should continue to follow that guidance.

16. The Task Force discussed whether the scope of the guidance in the Update resulting from this Issue should also include arrangements in which the infrastructure is used for its entire useful life but the grantor does not control the residual interest in the infrastructure. The Task Force concluded that the control over the residual interest in the infrastructure is important in deciding the economic substance of the arrangement. The Task Force decided when the operating entity controls the residual interest (regardless of the expected value of that interest at the end of the arrangement), it would not be appropriate to conclude whether the infrastructure should be recognized as a lease or as property, plant, and equipment of the operating entity.

17. The Task Force concluded that service concession arrangements within the scope of Topic 853 should not be accounted for as leases under Topic 840. Most respondents to the proposed Update agreed that a service concession arrangement within the scope of the Update should not be accounted for as a lease. Some members of the Task Force acknowledged that in many service concession arrangements, the operating entity is receiving substantially all of the economic output from the infrastructure during the term of the arrangement but the price paid is not fixed per unit of output or at current market price per unit of output. As such, service concession arrangements generally do meet one or more of the conditions in paragraph 840-10-15-6 to qualify as a lease. One Task Force member suggested that an operating entity should first look to Topic 840 to determine whether a service concession arrangement is a lease. Other Task Force members stated that requiring an operating entity to assess whether a service concession arrangement is a lease under Topic 840 does not provide clarity to stakeholders because of the difficulty in making such an assessment, which is why this Issue was considered by the Task Force. The Task Force concluded that the accounting for service concession arrangements should be determined on the basis of whether the operating entity controls the infrastructure that is being used to provide the public service.

18. The Task Force decided that it also was necessary to clarify that the operating entity's rights over the infrastructure do not result in the infrastructure being recognized as property, plant, and equipment of the operating entity. That is because the operating entity does not control or have title to the infrastructure under the terms of the arrangement. Many service concession

arrangements have a very long term. In such cases, the form and/or the substance of the arrangement may convey the responsibilities customary of ownership over the infrastructure to the operating entity during the term of the arrangement. The Task Force decided that because the operating entity does not have control over the infrastructure, the amendments should state that the infrastructure should not be recognized as the operating entity's property, plant, and equipment. Respondents to the proposed Update generally agreed with this principle.

19. The Task Force decided not to include specific guidance on what asset, if any, the operating entity should recognize for the infrastructure that is within the scope of the TopicUpdate resulting from this Issue. An operating entity should look to other Topics, as applicable, to account for various aspects of a service concession arrangement. Some Task Force members indicated a preference to expand the scope of Topic 853 to include specific guidance about how an operating entity should account for various aspects of a service concession arrangement. The Task Force concluded that many of the principles in current U.S. GAAP could direct preparers to the most appropriate guidance for their specific service concession arrangement. In addition, some related issues currently are being addressed in other ongoing FASB projects (for example, the FASB and IASB joint projects on revenue recognition and leasing).

Transition Method

20. The Task Force reached a consensus that the amendments in the Update resulting from this Issue should be applied on a modified retrospective basis to all arrangements existing at the beginning of the fiscal year of adoption and to all arrangements entered into after that date. The cumulative effect of applying the amendments in the Update to arrangements existing at the beginning of the fiscal year of adoption will be recognized as an adjustment to the opening balance of retained earnings. The Task Force considered whether the amendments should be applied on a full retrospective basis or a prospective basis and concluded that a modified retrospective basis provides a better balance between comparability and ease of transition in comparison to a full retrospective application and prospective application.

Effective Date and Early Application

21. The Task Force reached a consensus that the amendments in the Update resulting from this Issue should be effective for a public business entity for annual periods and interim periods within those annual periods beginning after December 15, 2014. The Task Force considered the feedback on the proposed Update about whether the amendments should have a different effective date for nonpublic entities. The Task Force did not identify a significant need for there to be an annual deferral for entities other than public business entities based on the nature of the amendments. After considering the Private Company Decision-Making Framework, which indicates that private companies generally should not be required to adopt amendments during an interim period within the initial fiscal year of adoption, the Task Force decided that for all entities, other than public business entities, the amendments should be effective for the annual period beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early adoption is permitted for all entities.

Board Ratification

22. At its December 11, 2013 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

23. No further EITF discussion is planned.

Issue No. 13-B

Title: Accounting for Investments in Qualified Affordable Housing Projects

Dates Discussed: March 14, 2013, September 13, 2013, November 14, 2013

Introduction

1. The objective of this Issue is to provide guidance on accounting for investments in affordable housing projects that qualify for the low income housing tax credit.

2. The low income housing tax credit program is designed to encourage investment of private capital for use in the construction and rehabilitation of low income housing. This program is an indirect tax subsidy that allows investors in a flow-through limited liability entity, such as a limited partnership or limited liability company that manages or invests in a qualified affordable housing project, to receive the benefits of the tax credits allocated to the entity that owns the qualified affordable housing project. The Revenue Reconciliation Act of 1993, enacted in August 1993, retroactively extended and made permanent the low income housing tax credit. Investors in entities operating qualified affordable housing projects receive tax benefits in the form of tax credits and tax deductions from operating losses. The tax credits are generated and earned over a 10-year period as a result of renting a sufficient number of units to qualifying tenants and are subject to restrictions on gross rentals paid by those tenants. Those credits are subject to recapture by the Internal Revenue Service over a 15-year period starting with the first year tax credits are earned.

3. Investments in qualified affordable housing projects through flow-through limited liability entities have different risks and rewards than traditional equity investments. Generally, investors in qualified affordable housing project investments seek a majority of their return through the receipt of tax credits and other tax benefits (such as operating losses). Accordingly, the principal risk associated with qualified affordable housing investments is potential noncompliance with the tax code requirements resulting in unavailability or recapture of the tax credits (for example, failure to rent property to qualified tenants may result in loss of low income housing tax credits) and other tax benefits.

4. Currently, under U.S. generally accepted accounting principles (U.S. GAAP), a reporting entity that invests in a qualified affordable housing project may elect to account for that investment using the effective yield method if all the conditions in paragraph 323-740-25-1 are met. For those investments that are not accounted for using the effective yield method, paragraph 323-740-25-2 requires that those investments be accounted for in accordance with Subtopic 970-323, Real Estate—General—Investments—Equity Method and Joint Ventures, which results in the investments being accounted for under either the equity method or the cost method. Some stakeholders have said that the conditions requiring the availability of tax credits to be guaranteed by a creditworthy entity and projected yield based solely on the cash flows from guaranteed tax credits to be positive in order to use the effective yield method are overly restrictive and therefore should be reconsidered. To these stakeholders, those conditions prevent many investments from qualifying for the use of the effective yield method, which they believe provides users with a better understanding of the returns from such investments than the equity

or cost methods.

Issues

5. The issue is how an entity should account for its limited liability entity investment in a qualified affordable housing project.

Scope

6. This Issue applies to all reporting entities that invest in a qualified affordable housing project through a limited liability entity that is a flow-through entity for tax purposes.

Prior EITF Discussion

7. At the September 13, 2013 EITF meeting, the Task Force considered the feedback received from the comment letters on the proposed Update for this Issue, which was posted to the FASB website on April 17, 2013, with a comment period that ended on June 17, 2013. The FASB received 73 comment letters on the proposed Update. A summary of those responses was provided to the Task Force in advance of the meeting.

Conditions and Other Transactions

8. Based on the comment letter responses, the Task Force revised the condition in paragraph 323-740-25-1(aa) of the proposed Update as follows (added text is underscored and deleted text is ~~struck through~~):

> The investor does not have the ability to exercise ~~retains no operational~~ significant influence over the ~~LIHTC investment other than protective rights~~ operating and financial policies of the limited liability entity, and substantially all of the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment).

In reaching that decision, the Task Force agreed with a majority of the comment letter respondents who indicated that the condition to have "no operational influence" was overly restrictive. The Task Force noted that the intent of the condition is to identify those investments that are made for the primary purpose of receiving tax credits and other tax benefits. Therefore, the Task Force decided that an investor who has the ability to influence the operating and financial policies of the limited liability entity should not be precluded from applying the guidance in the proposed Update as long as that investor does not have the ability to exercise significant influence. The Task Force determined that the existence of significant influence should be assessed in accordance with Topic 323 considering the indicators of significant influence in paragraphs 323-10-15-6 and 15-7. The Task Force acknowledged that the guidance in those paragraphs was intended for application to investments in common stock and not to investments in limited liability partnership interests. Therefore, the subsequent paragraphs (paragraphs 323-10-15-8 through 15-11) that address voting stock ownership levels (for example, the significant influence presumption at a 20 percent or more voting stock ownership) would not be applicable in the determination of whether a limited liability investor has significant influence in a LIHTC investment. However, if a reporting entity either does not qualify for or elects not to apply the guidance in the proposed Update, it should continue to apply the existing guidance for real estate investments in paragraph 970-323-25-6, as interpreted for

SEC registrants in paragraph 323-30-S99-1, in evaluating whether the limited liability entity would be accounted for as an equity method or a cost method investment. That is, when an entity does not qualify for or elects not to apply the guidance in the proposed Update, the equity method should be used unless the investor's interest "is so minor that the limited partner may have virtually no influence over partnership operating and financial policies." The Task Force also considered the use of an alternative condition of "no substantive participating rights." The Task Force noted that the term "participating rights" currently used in the consolidation guidance of Topic 810 is designed for determining whether a presumption of control by a general partner can be overcome and therefore may not be appropriate in the context of determining the level of influence an individual limited partner investor can exercise on its investment. The Task Force decided that the use of existing equity method accounting concepts and principles would be more appropriate and more operable for purposes of assessing this criterion.

9. Based on concerns raised by comment letter respondents, the Task Force also discussed and decided that other transactions, such as bank loans, between the investor and the limited liability entity should not preclude an investor from applying the guidance in the proposed Update as long as the investments are made for the primary purpose of receiving tax credits and other tax benefits. To maintain that objective, the Task Force decided that other transactions between the reporting entity and the limited liability entity should not be considered in determining whether the conditions in the proposed Update are met, provided that (a) the reporting entity is in the business of entering into those transactions, (b) those transactions are entered into at market rates commensurate to rates offered to other counterparties with similar credit quality, and (c) the transactions do not give the reporting entity the ability to exercise significant influence over the operating and financial policies of the limited liability entity.

10. The Task Force also tentatively decided that a reporting entity should evaluate its eligibility to use the guidance in the proposed Update (a) based on facts and conditions that exist at the time of the initial investment or (b) upon a change in the nature of the investment or in the relationship with the limited liability entity that could result in the reporting entity no longer meeting the conditions to be able to use the guidance in the proposed Update.

Amortization Method and Balance Sheet Classification

11. Many respondents to the proposed Update indicated that the effective yield method of amortizing the investment was overly complex. Some respondents indicated that a proportional amortization method would better reflect the pattern of economic benefits received from LIHTC investments. In response to such feedback, the Task Force discussed and decided to change the method of accounting from the effective yield method to the proportional amortization method on the basis that it would provide a reasonable reflection of the economics of such investments in a less complex manner. Under the proportional amortization method, the cost of the investment is amortized each reporting period in proportion to the tax credits and other tax benefits received. The resulting amortization would be recognized as a component of income taxes attributable to continuing operations consistent with the proposed Update. The Task Force clarified that a reporting entity electing the proportional amortization method should not record deferred taxes on the book and tax bases differences in the investment because (a) the investment has similarities with the purchase of future tax benefits, as illustrated in paragraphs 740-10-55-199 through 55-201, and (b) it would not be appropriate to record deferred taxes on a temporary

difference resulting from an amortization that is already being recorded within the income tax provision. Additionally, to be consistent with its determination that these investments are tax credit investments that are economically different from other real estate entity investments, the Task Force tentatively decided that the LIHTC investment should be classified as a deferred tax asset on a reporting entity's balance sheet and not as an investment. The Task Force requested that the staff perform additional analysis of its tentative decision to present the investment as a deferred tax asset on the balance sheet.

Impairment

12. The Task Force also discussed whether a reporting entity should test the LIHTC investment for impairment using a trigger-based recoverability test similar to the model under Topic 360 on property, plant and equipment, or using a valuation-allowance model similar to the method under Topic 740 on income taxes. The Task Force decided that a reporting entity should test a LIHTC investment for impairment when it is more likely than not that the investment will not be realized through the receipt of tax credits and other tax benefits (similar to a valuation-allowance model). The Task Force reached that decision on the basis that (a) the nature of the investment is similar to the purchase of future tax benefits, and (b) the carrying amount of the investment is classified as a deferred tax asset.

Applicability to Other Tax Credit Investments

13. The Task Force also discussed whether the guidance in the proposed Update should be extended to tax credit investments other than LIHTC investments. Based on comment letter responses, other common tax credit investments include, but may not be limited to, investments in historic tax credits, alternative energy tax credits, and new markets tax credits. Some Task Force members argued that the proportional amortization method should be applied to all tax credit investments that meet the revised conditions because that method would be suitable for all tax credit investments that are made for the primary purpose of receiving tax credits and other tax benefits regardless of the type of investment. Those Task Force members favored extending the guidance to other tax credit investments or allowing the use of analogy to this guidance. Other Task Force members expressed concern that there may be unintended consequences if the guidance in the proposed Update were applied to other types of tax credit investments. Those concerns were expressed especially for situations in which there are other transactions between the investor and the limited liability entity that have not been contemplated in the development of the proposed guidance. Those Task Force members stated that there is not enough information at this time to be able to determine whether the scope should be expanded.

14. The Task Force requested that the FASB staff perform further outreach and research to determine whether other types of tax credit investments would meet the revised conditions in the proposed Update. The Task Force also requested that the staff analyze other transactions between an investor and a limited liability entity that may be common in other types of tax credit investments.

Recurring Disclosures

15. The Task Force affirmed its consensus-for-exposure that the guidance would include disclosure objectives that would enable users of financial statements to understand the nature of the investments in qualified affordable housing tax projects, the financial statement effect of

those investments, and the related tax credits. The Task Force decided to add a separate disclosure showing the amount of deferred tax assets arising from such investments. The Task Force also decided to remove the example disclosure about ongoing regulatory reviews and the status of such reviews, because several respondents were concerned about the cost and effort necessary to provide that disclosure.

Transition and Transition Disclosures

16. The Task Force affirmed its consensus-for-exposure that an entity should apply the proposed amendments retrospectively, with early adoption permitted as of the beginning of the fiscal year of adoption for financial statements not yet issued. The Task Force also decided that a reporting entity that uses the effective yield method to account for its LIHTC investments prior to the date of adoption of the proposed amendments would be permitted to continue to apply the effective yield method for those LIHTC investments. In reaching that decision, the Task Force considered the possibility that the costs may outweigh the benefits of changing from the effective yield method to a proportional amortization method for some reporting entities.

Current EITF Discussion

17. At the November 14, 2013 EITF meeting, the Task Force reached a consensus that an entity may make an accounting policy election to account for its limited liability investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The Task Force reached a consensus to change the method of accounting from the effective yield method to the proportional amortization method on the basis that these investments are different from debt instruments for which effective yield may be more appropriate and that the proportional amortization method should provide a fair reflection of the economics of such investments in a less complex manner than the effective yield method.

18. The Task Force agreed that for those limited liability investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should continue to be accounted for in accordance with Subtopic 970-323. In accounting for such an investment under that Subtopic, a reporting entity should apply the amendments in the Update resulting from this Issue that are not related to the proportional amortization method.

19. In reaching its consensus, the Task Force discussed whether the scope of the amendments in the Update resulting from this Issue should apply only to limited partnership investments in affordable housing projects. The Task Force noted that investments in affordable housing projects have increased and that entities have invested in affordable housing projects through both limited partnerships and limited liability companies. One Task Force member noted that limited liability entities are required to elect to be taxed as flow-through entities for investors to be eligible to receive the tax credits. The Task Force clarified that the amendments in the Update should apply to both limited partnership and limited liability investments in qualified affordable housing projects.

20. The Task Force also discussed whether the scope of the amendments in the Update resulting from this Issue should be extended to tax credit investments other than investments in qualified affordable housing projects. Some Task Force members stated that the proportional amortization method should be applied to all tax credit investments that meet the conditions in the Update

because that method would be suitable for all tax credit investments that are made for the primary purpose of receiving tax credits and other tax benefits regardless of the type of investment. Other Task Force members expressed concern that there may be unintended consequences if the guidance in the Update was applied to other types of tax credit investments. The Task Force reached a consensus to limit the scope of the amendments in the Update to only investments in qualified affordable housing projects because it will more quickly address the concerns in practice about the income statement presentation of those investments.

21. The Task Force also recommended that the Board consider adding a separate project to the Task Force's agenda to assess the applicability of the guidance in the Update resulting from this Issue to other types of tax credit investments. The Task Force expects that more investments in qualified affordable housing projects will qualify for the proportional amortization method under the amendments than those that qualify for the effective yield method under current U.S. GAAP. This is principally the result of (a) removing the requirement for a guarantee by a creditworthy entity and (b) modifying the requirement for a positive yield based not only on the cash flows from the tax credits but, rather, on cash flows from *both* the tax credits *and* other tax benefits. The Task Force observed that the threshold for applying the proportional amortization method should remain high absent the requirement for a guarantee by a creditworthy entity and therefore decided that it should be probable that the tax credits allocable to the investor will be available. The Task Force acknowledged that such a threshold should be higher than the more-likely-than-not threshold described in Topic 740, Income Taxes.

22. In reaching its consensus, the Task Force also clarified that the intent of the guidance in the Update resulting from this Issue is to identify those investments that are made for the primary purpose of receiving tax credits and other tax benefits. Therefore, an investor who has the ability to influence the operating and financial policies of the limited liability entity should not be precluded from applying the guidance in the amendments in the Update as long as that investor does not have the ability to exercise *significant* influence. The Task Force determined that the existence of significant influence should be assessed in accordance with Topic 323 considering the indicators of significant influence in paragraphs 323-10-15-6 through 15-7. The Task Force acknowledged that the guidance in those paragraphs was intended for application to investments in common stock and not to investments in limited liability partnership interests. Therefore, the subsequent paragraphs (paragraphs 323-10-15-8 through 15-11) that address voting stock ownership levels (for example, the significant influence presumption at a 20 percent or more voting stock ownership) would not be applicable in determining whether a limited liability investor has significant influence in an investment in an affordable housing tax credit project. However, if a reporting entity either does not qualify for or elects not to apply the proportional amortization method, it should apply the existing guidance for real estate investments in paragraph 970-323-25-6, as interpreted for SEC registrants in paragraph 323-30-S99-1, in evaluating whether the limited liability entity would be accounted for as an equity method or a cost method investment. That is, when an entity does not qualify for or elects not to apply the proportional amortization method, the equity method should be used unless the investor's interest "is so minor that the limited partner may have virtually no influence over partnership operating and financial policies."

23. The Task Force considered the use of an alternative condition of "no substantive

participating rights." The Task Force noted that the term *participating rights* currently used in the consolidation guidance of Topic 810 is designed for determining whether a presumption of control by a general partner can be overcome and therefore may not be appropriate in the context of determining the level of influence an individual limited partner investor can exercise on its investment. The Task Force decided that the use of existing equity method accounting concepts and principles would be more appropriate and more operable for purposes of assessing the ability to influence the operating and financial policies of the limited liability entity.

24. The Task Force also decided that a reporting entity should evaluate its eligibility to use the guidance in this Update at the time of the initial investment based on facts and conditions that exist at that date and reevaluate those conditions if necessary upon a change in (a) the nature of the investment (for example, if the investment is no longer a flow-through entity for tax purposes) or (b) the relationship with the limited liability entity that could result in the reporting entity no longer meeting the conditions to be able to use the guidance in the amendments in this Update. In addition, the Task Force clarified that other transactions between the investor and limited liability entity (for example, bank loans) should not preclude an investor from applying the proportional amortization method as long as the investment is still made for the primary purpose of receiving tax credits and other tax benefits. To achieve that objective, the Task Force introduced a principle that states that other transactions should not be considered when determining whether the conditions are met, provided that (a) the reporting entity is in the business of entering into those other transactions, (b) the terms of those other transactions are consistent with the terms of arm's-length transactions, and (c) the reporting entity does not acquire the ability to exercise significant influence over the operating and financial policies of the limited liability entity as a result of those other transactions.

25. Under the proportional amortization method, the cost of the investment is amortized in proportion to the tax credits and other tax benefits allocated to the investor. The resulting net investment performance should be recognized as a component of income tax expense (benefit). Some stakeholders noted that they would prefer an amortization model based solely on the tax credits because the benefits of a more precise amortization method do not justify the complexity associated with that method. The Task Force concluded that as a practical expedient, an investor should be permitted to amortize the initial cost of the investment in proportion to only the tax credits allocated to the investor, if doing so would produce a measurement that is substantially similar to the measurement that would be produced when amortizing the investment in proportion to the tax credits and other tax benefits allocated to the investor.

26. The Task Force reached a consensus that a reporting entity electing to use the proportional amortization method should test its investments in qualified affordable housing projects for impairment when there are events or changes in circumstances indicating that it is more likely than not that the carrying amount of the investment will not be realized. In testing the investment for impairment, the Task Force noted that the carrying amounts of qualified affordable housing project investments generally are realized through the receipt of tax credits and other tax benefits but also may be realized through sale of the investments in the secondary market. The Task Force decided that if it is more likely than not that the expected tax benefits will not be realized, an impairment loss should be measured as the amount by which the carrying amount of an investment exceeds its fair value. A previously recognized impairment loss should not be

reversed.

27. The Task Force considered whether investments in qualified affordable housing projects should be classified as deferred tax assets in a reporting entity's balance sheet and concluded that those investments would not meet the definition of a deferred tax asset because they are neither the result of a difference between the tax basis of the investment and the reported amount in the financial statements nor analogous to a tax credit carryforward. The classification of these investments within deferred tax assets would therefore have the effect of aggregating assets of a dissimilar nature in the balance sheet. The Task Force concluded that the guidance in the amendments in the Update resulting from this Issue should not prescribe the balance sheet presentation for investments in qualified affordable housing projects.

28. The Task Force reached a consensus that the amendments in the Update resulting from this Issue should include required disclosure objectives for all reporting entities that invest in qualified affordable housing projects. In reaching its consensus, the Task Force noted that disclosures should help users of the financial statements understand the nature of the qualified affordable housing project investments and the effect of the measurement of those investments and the related tax credits on the reporting entity's financial position and results of operations. The Task Force agreed that the amendments should include disclosure objectives for reporting entities and provide potential items that the reporting entity should consider disclosing to meet those objectives. Disclosures also should be incremental to limit the increased burden on reporting entities. Therefore, the Task Force suggested that to meet the disclosure objectives, a reporting entity may consider disclosing the following:

a. The amount of affordable housing tax credits recognized during the year
b. For qualified affordable housing project investments accounted for using the equity method, the amount of investment income or loss included in pretax income
c. Any commitments or contingent commitments (for example, guarantees or commitments to provide additional capital contributions), including the amount of equity contributions that are contingent commitments related to qualified affordable housing project investments and the year(s) that contingent commitments are expected to be paid
d. The amount and nature of impairment losses during the year resulting from the forfeiture or ineligibility of tax credits or other circumstances. For example, those impairment losses may be based on actual property-level foreclosures, loss of qualification due to occupancy levels, compliance issues with tax code provisions, or other issues.

Transition

29. The Task Force discussed whether the guidance in the Update resulting from this Issue should be applied retrospectively, prospectively to new investments, or under a modified retrospective approach with a cumulative-effect adjustment to opening retained earnings at the beginning of the fiscal year of adoption. The Task Force reached a consensus that an entity should apply the guidance on a retrospective basis by applying the requirements for accounting changes in paragraphs 250-10-45-5 through 45-10 because investments in qualified affordable housing projects have long terms and, thus, a retrospective application provides comparable

information that other transition methods could not provide. The Task Force also observed that information to retrospectively apply the amendments in the Update should be readily available in most instances.

30. The Task Force decided, however, that a reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption of the Update resulting from this Issue will be permitted to continue to apply the effective yield method for those preexisting investments. In reaching that decision, the Task Force considered the possibility that the costs may outweigh the benefits of changing from the effective yield method to a proportional amortization method for some reporting entities. Early adoption is permitted.

31. The guidance on other presentation matters in Subtopic 250-10, Accounting Changes and Error Corrections—Overall, is applicable for any voluntary change in accounting principle, including a change in the method of applying an accounting principle. The Task Force reached a consensus to apply the disclosure requirements in Section 250-10-50 for an accounting change required by the guidance in the Update resulting from this Issue. No additional transition disclosures other than the requirements in paragraphs 250-10-50-1 through 50-3 are required.

Effective Date and Early Application

32. The Task Force decided that the amendments in the Update resulting from this Issue should be effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. For all entities other than public business entities, the amendments are effective for the annual period beginning after December 15, 2014, and interim periods within annual reporting periods thereafter. After considering the decisions in the Private Company Decision-Making Framework, which indicates that nonpublic entities generally should be provided an additional year, the Task Force decided not to extend the effective date further for nonpublic entities because of the elective nature of the amendments in the Update.

Board Ratification

33. At its December 11, 2013 meeting, the Board ratified the consensus reached by the Task Force on this Issue. The Board also added a pre-agenda research project regarding the potential scope expansion of this Issue.

Status

34. No further EITF discussion is planned.

Issue No. 13-E

Title: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

Dates Discussed: June 11, 2013, November 14, 2013

Introduction

1. In recent years, the number of vacant or abandoned residential real estate properties resulting from the general economic conditions, including weakness in the housing market, has affected the rate of residential foreclosures and increased the potential for higher levels of other real estate owned (OREO) by banks or similar lenders (creditors).

2. Current guidance in U.S. GAAP indicates that upon "a troubled debt restructuring that is *in substance a repossession or foreclosure* by the creditor, that is, the creditor receives physical possession of the debtor's assets *regardless of whether formal foreclosure proceedings take place* (emphasis added)," a creditor should record the residential real estate received (and held for sale) initially at its fair value less cost to sell. This becomes the cost basis of that property. Subsequent decrease or increase in fair value less cost to sell should be recognized, but not in excess of the initial cost basis. As such, a creditor should reclassify a collateralized residential mortgage loan (for example, to OREO) when it determines that it has, in substance, repossessed or foreclosed on the residential real estate property. However, the terms *in substance a repossession or foreclosure* are not defined in the accounting literature and there is diversity in the timing of their application and interpretation for purposes of reclassifying the loan receivable. That diversity has been highlighted by the extended foreclosure processes related to residential real estate.

3. OREO consists of real property held by a creditor for reasons other than to conduct its business and there is different operational risk to managing real estate versus an impaired loan. A growth in OREO also could be indicative of deteriorating credit for the bank with non-earning assets that are growing. Therefore, loan reclassifications and presentation as OREO may be of qualitative significance to users of the creditor's financial statements. As such, the timing of loan reclassification to OREO is of interest to users of financial statements in terms of uniformity in interpreting and applying U.S. GAAP guidance.

Issue

4. The issue is when a creditor should be considered to have taken physical possession of a residential real estate property collateralizing a consumer mortgage loan, such that the loan should be reclassified (for example, to OREO).

Scope

5. This Issue would affect (a) reclassification of consumer mortgage loans issued by banks or other lenders that are collateralized by the residential real estate property for which the loan was obtained, and (b) disclosures of other real estate owned.

Prior EITF Discussion

6. The Task Force reached a consensus-for-exposure that a creditor should be considered to have taken physical possession of residential real estate property collateralizing a consumer mortgage loan only upon (a) the creditor obtaining legal title to the residential real estate property or (b) completion of a deed in lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the lender to satisfy that loan, even though legal title may not yet have passed.

7. The Task Force observed that prior to obtaining title or other legal conveyance of property in satisfaction of the loan, the creditor generally only has protective rights associated with that property for which it is not legally the owner. The creditor lacks the most important rights associated with ownership in that it cannot receive rent income or sell or otherwise transfer the real estate property before title is obtained (or all interests are conveyed), and, therefore, the most important benefits of ownership are dependent on possessing title or upon the borrower legally conveying all interests in the property, such as is evidenced by a completed deed in lieu of foreclosure. The Task Force considered transfer of legal title and a completed deed in lieu of foreclosure to be similar because legal title can typically be obtained within a few months of a completed deed in lieu of foreclosure. Further, the Task Force believes that the reference in the accounting guidance to the creditor receiving physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place refers to situations in which a deed in lieu of foreclosure or similar legal agreement is completed without formal foreclosure proceedings taking place.

8. The Task Force also decided that the consensus-for-exposure should request stakeholder feedback through the comment letter process on whether the scope of this Issue should be explicitly extended to commercial real estate loans and/or loans secured by nonfinancial assets other than real estate.

9. The Task Force reached a consensus-for-exposure to require a roll forward of foreclosed and repossessed real estate balances at every reporting period and to disclose the carrying amount of consumer mortgage loans secured by one to four family residential properties that are in the process of foreclosure. The Task Force believes that those disclosures would provide decision-useful information to users of the entity's financial statements.

10. The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue should be applied on a modified retrospective basis to residential consumer mortgage loans and OREO existing at the date of adoption by means of a cumulative-effect adjustment as of the beginning of the reporting period for which the guidance is effective. The cumulative-effect adjustment would be recorded by reflecting any reclassification between residential consumer mortgage loans and OREO at the date of adoption in the carrying amounts of those assets as of the beginning of the current year presented. An offsetting adjustment, if any, would be made to the opening balance of retained earnings (or other appropriate components of equity) for the current year.

11. The Task Force reached a consensus-for-exposure that entities should apply the transition disclosure requirements in paragraphs 250-10-50-1 through 50-3 for an accounting change resulting from this Issue. No additional transition disclosures would be required.

Current EITF Discussion

12. At the November 14, 2013 EITF meeting, the Task Force decided to limit the scope of this Issue and the resulting amendments to consumer mortgage loans collateralized by residential real estate properties noting that the prevalent diversity in practice relates to those arrangements because of the extended foreclosure timelines and processes, including those resulting from regulatory and legal safeguards afforded to residential borrowers. The Task Force considered whether the scope should be expanded to include commercial real estate loans and loans collateralized by nonfinancial assets other than real estate. The Task Force decided that those arrangements are beyond the scope of this Issue because the foreclosure processes and applicable laws for those assets are significantly different from residential real estate.

13. The Task Force decided that an in substance repossession or foreclosure occurs, that is, a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed terms and conditions have been satisfied by both the borrower and the creditor.

14. The Task Force noted that a creditor generally obtains legal title to the residential real estate property upon completion of a foreclosure sale. The Task Force acknowledged that legal title also can be obtained through completion of a deed in lieu of foreclosure. A deed in lieu of foreclosure generally is an agreement by which the borrower voluntarily conveys all interest in residential property to the creditor to satisfy a loan that is in default. The agreement is completed when agreed terms and conditions have been satisfied by both parties. The Task Force determined that the reference in paragraph 310-40-40-6 to the creditor receiving physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place contemplates situations in which a deed in lieu of foreclosure or similar legal agreement is completed without formal foreclosure proceedings taking place.

15. The Task Force observed that before obtaining title or other legal conveyance of property in satisfaction of the loan, the creditor generally only has protective rights associated with the residential real estate property and it is not the legal owner. Before obtaining legal title, the actions taken by a creditor with regard to the property such as maintaining the physical property, paying taxes to avoid a tax lien being placed on the property, and obtaining insurance coverage, are to protect the creditor's interest in the property and prevent deterioration in the physical condition of the property to maximize the future recovery value. The Task Force concluded that at the point of foreclosure, or completion of a deed in lieu of foreclosure or similar legal agreement, the rights of the creditor shift from protective rights to legal ownership rights because the creditor now has the legal right to sell the property. The Task Force also noted that reclassifying loans to real estate at the point of legal title transfer is a more objectively determinable threshold than earlier thresholds and, therefore, would result in more consistent reporting between creditors regardless of jurisdiction.

16. The Task Force decided that a creditor should not wait until the redemption period has expired to reclassify a consumer mortgage loan to residential real estate. The Task Force concluded that an entity should be considered to obtain physical possession when it obtains legal title because the creditor generally has the right to sell the property subject to the borrower's right of redemption. In addition, the Task Force observed that redemption rights of the borrower are rarely exercised because a borrower who fails to make monthly payments typically is unable to pay the entire loan balance before the redemption period expires.

17. The Task Force decided that creditors should disclose the recorded investment in residential consumer mortgage loans secured by residential real estate that are in the process of foreclosure. The determination of whether such loans are in the process of foreclosure should be made by reference to local requirements of the applicable jurisdiction. The Task Force observed that this requirement is similar to the disclosure of the unpaid principal balance of loans secured by one to four family residential properties in process of foreclosure that currently is required on a quarterly basis for regulated financial institutions that are required to file a Consolidated Report of Condition and Income (Call Report). The Task Force decided that the disclosure should be brought into U.S. GAAP financial statements within the context of existing credit quality disclosures in Section 310-10-50 to provide decision-useful and complete information to users of a creditor's financial statements about the progression of collateral-dependent residential consumer mortgage loans from performing to nonperforming and, ultimately, to foreclosure. The Task Force expects that users of financial statements will benefit from understanding the trend of progression toward foreclosure over time. Various Task Force members did not agree with adding these disclosures. In their view, the existing credit quality and foreclosed asset disclosures provide sufficient information to users of financial statements.

18. The Task Force decided based on feedback from comment letter respondents that disclosure of a roll-forward of residential real estate property was not necessary. The Task Force concluded that the disclosure of loans in process of foreclosure and the amount of outstanding foreclosed residential real estate provided sufficient information for users to understand the trend of progression toward foreclosure over time.

Transition Method

19. The Task Force decided that entities can elect to apply the amendments in the Update resulting from this Issue on either a modified retrospective transition basis or a prospective transition basis.

Effective Date and Early Application

20. The Task Force decided that the effective date provides sufficient time for all reporting entities to comply with the amendments in the Update resulting from this Issue. After considering the guidance in the Private Company Decision-Making Framework that indicates that nonpublic entities generally should be provided with an additional year for transition, and considering the level of effort needed for transition, the Task Force concluded that no additional delay was necessary for nonpublic entities because an entity has an option to apply the amendments on a prospective basis and a nonpublic entity is not required to apply the guidance in the Update to interim periods in the year of adoption. The Task Force also decided to permit early adoption of the amendments to eliminate existing diversity as soon as is practicable.

Board Ratification

21. At its December 11, 2013 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

22. No further EITF discussion is planned.

Issue No. 13-F

Title: Classification of Certain Government Insured Residential Mortgage Loans upon Foreclosure by a Creditor

Date Discussed: November 14, 2013

Introduction

1. Government insured mortgage loans are mortgages that the government agrees to pay the creditor if the homeowner stops making payments. This insurance provides creditors with protection against losses as the result of homeowners defaulting on their loan, and takes the place of private mortgage insurance. Loans are extended by approved creditors that must meet certain requirements established by the program to qualify for insurance. Currently, the most common government loan guarantee programs are those offered by the Federal Housing Administration (FHA) of the Department of Housing and Urban Development's (HUD), which insures mortgages on single family and multifamily homes to low-income and first-time home buyers; the Department of Veterans' Affairs (VA), which insures mortgages on homes purchased by eligible veterans; and the Department of Agriculture's Rural Housing Service (RHS), which provides loan guarantees for low and moderate-income families who want to buy a single-family home in rural areas. Each program has its own requirements and the amount guaranteed varies.

2. Based on those characteristics, this issue would principally affect certain residential mortgage loans fully guaranteed by the FHA. The general fact pattern and process for reimbursement under the claim related to those residential mortgage loans fully guaranteed by the FHA is as follows:

a. The creditor initiates foreclosure (or obtains and records a deed in lieu of foreclosure) to acquire the property within a specified timeframe from the date of default. If the property is vacant or abandoned, the creditor must initiate foreclosure or obtain a deed in lieu of foreclosure within a specified timeframe from the date of default or the property being discovered as vacant. Foreclosure is initiated upon the first public action required by law such as filing a complaint or petition, recording a notice of default, or publication of a notice of sale through public record.

b. The creditor is required to exercise reasonable diligence in bringing the foreclosure proceedings to completion and in acquiring title and possession of the property and ensuring that specified time frames are met. Differences in state procedures and redemption periods will affect the length of time required to complete foreclosure. Completion of foreclosure under FHA claim guidelines is deemed to be the date on which the Sherriff's, Trustee's, etc. deed or certificate of title is recorded. The deed is generally executed after the expiration of the redemption period and before eviction of the occupant, if applicable.

c. At foreclosure the creditor generally takes title to the property and conveys the property to HUD under the FHA guarantee. The creditor may choose to retain title to the property if they do not have the intent to make a claim on the guarantee. In some jurisdictions the foreclosure deed may convey title directly to HUD instead of the creditor. Direct conveyances are less common. If not conveyed directly, the property is usually conveyed to HUD shortly after foreclosure or a deed in lieu of foreclosure agreement is completed.

d. The creditor would submit the insurance claim to HUD after the foreclosure process is completed; specifically, the HUD guidelines indicate the claim to be submitted on the date the deed is filed for record or mailed to the recording authority.

e. To be eligible to receive payment of the claim, the creditor is required to follow all inspection and servicing requirements set out by HUD.

f. Upon receipt of an acceptable application, HUD would pay the unpaid principal balance plus debenture interest, which is less than the contractual note rate. The debenture interest is the amount of interest earned on the balance from the date of default as defined by the FHA to the date of the initial settlement of the claim. The difference between the note rate and the debenture rate is never recovered by the creditor. The creditor's failure to comply with the HUD requirements might result in a loss of debenture interest.

g. HUD also reimburses creditors of FHA guaranteed loans for certain expenses and allowances (for example, tax and utility liens on the property, reasonable hazard insurance payments, a percentage of foreclosure costs, certain repairs and maintenance expenses), provided all time requirements have been met.

h. HUD can refuse conveyance of the property if claim requirements are not met. Also, if a creditor conveys a property to HUD which is ineligible for insurance benefits or otherwise fails to comply with the regulations, the creditor must promptly correct the defect or HUD may convey the property back to the creditor.

i. The creditor can elect to sell the property to a third party and thereby never make a claim to HUD under the FHA guarantee; for example, if the fair value of the property increases subsequent to foreclosure such that it is greater than the recorded investment in the loan or if the creditor otherwise determines that making a claim under the guarantee may not be advantageous as compared with holding or selling the property on its own.

Issue

3. There is diversity in practice among creditors related to the reporting and disclosure of foreclosed FHA-guaranteed loans. This Issue is intended to reduce that diversity by addressing the classification of FHA-guaranteed loans directly held by the creditor. This Issue does not address the accounting for investments in mortgage-backed securities that may contain FHA-guaranteed mortgage loans.

Scope

4. This Issue applies to the balance sheet classification of residential mortgage loans issued by banks or other mortgage lenders that have both of following two characteristics:

a. The loan has a government guarantee (that is not separable from the loan) entitling the creditor to the full unpaid principal balance of the loan

b. At the time of foreclosure (as determined by ASC 310-40-40-6), the creditor has the intent to make a claim on the guarantee and the ability to recover through the guarantee.

Current EITF Discussion

5. At the November 14, 2013 EITF meeting, the Task Force reached a consensus-for-exposure that the guidance in the proposed Update resulting from this Issue would apply to residential mortgage loans for which (a) there is a government guarantee that is not separable from the loan entitling the creditor to recover the full unpaid principal balance of the loan and (b) at the time of foreclosure the creditor has the intent and ability to recover under the guarantee. The Task Force determined that the scope of the proposed guidance should be based on the characteristics of the loan and the guarantee rather than on the particular features of a specific government program, since those programs can change over time.

6. The Task Force observed that the proposed Update resulting from this Issue would predominantly affect mortgage loans fully guaranteed by the FHA. The Task Force understands that most of the diversity in practice relates to the classification for FHA-guaranteed loans. Therefore, the Task Force noted that it was not necessary to consider other variations in loan guarantees available to creditors and that the scope of the proposed guidance should be limited to government programs with full guarantees. Additionally, the Task Force determined that the creditor at the time of foreclosure should have the intent and ability to recover under the guarantee on the basis that the accounting should be determined based on the economic substance (that the creditor will recover under the guarantee) rather than on the mere existence of the guarantee. A creditor would be considered to have the ability to recover under the guarantee at the time of foreclosure if the creditor determines that it has maintained compliance with the conditions and procedures required by the guarantee program. The Task Force decided that without such intent and ability, reporting entities should not be subject to the provisions of the proposed Update even if there is a guarantee on the loan, but that they should be subject to the provisions of the Update resulting from EITF Issue No. 13-E, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure."

7. The Task Force reached a consensus-for-exposure that a creditor would reclassify a government-guaranteed residential mortgage loan for which the creditor has the intent and ability to recover the full unpaid principal balance of the loan to a separate receivable at the time of foreclosure. The Task Force determined that receivable classification was most appropriate upon foreclosure of loans within the scope of the proposed Update resulting from this Issue because the creditor has a guarantee that entitles it to make a claim for cash rather than selling the real estate. The Task Force considered several alternatives for classification. The Task Force considered whether upon foreclosure a creditor should separately recognize foreclosed real estate (for example, other real estate owned) measured at the fair value of the real estate less costs to sell in accordance with Subtopic 310-40 and a separate guarantee receivable measured as the difference between the carrying value of the real estate and the amount recoverable under the guarantee. The Task Force also considered whether the loan should be reclassified to other real estate owned as a single unit of account and measured based on the amount expected to be recovered under the guarantee.

8. The Task Force determined that, upon foreclosure, if the creditor does not intend to recover on the loan through sale of the real estate, and has the intent and ability to recover the full principal balance under the guarantee, it has no exposure to the value of the real estate collateralizing the loan and, therefore, the value of the real estate does not affect the amount the creditor expects to recover through the guarantee. The Task Force acknowledged that the creditor

receives title to the real estate but noted that it is acting in a manner similar to an agent for the guarantor. Therefore, the Task Force decided that real estate presentation and accounting would not be appropriate. Furthermore, the Task Force noted that because the loan would not have been extended without the guarantee and the creditor intends to make a claim on the guarantee, the guarantee and the loan (and after foreclosure the guarantee and the real estate) should be recognized as a single unit of account both before and after foreclosure occurs.

9. The Task Force also considered whether the loan should not be reclassified (that is, whether it should remain classified as a loan) from the time of foreclosure until the guarantee claim is paid. The Task Force concluded that the asset held by the creditor no longer represents a loan because upon foreclosure the counterparty has changed from the original borrower to the guarantor. At the point of foreclosure, the creditor can no longer look to the borrower to recover on the loan but instead will look to the guarantee claim to recover on the loan. Accordingly, the Task Force decided that the loan would be reclassified to a separate receivable apart from loans at the time of foreclosure.

10. The Task Force considered whether entities should be required to disclose the full amount expected to be received under the guarantee and the fair value less cost to sell of the property collateralizing the government-guaranteed loans. The Task Force decided that such recurring disclosures would not be required because the creditor is not exposed to the changes in the fair value of the real estate collateralizing the loans. Therefore, the Task Force believes that the disclosures would not be decision-useful. The Task Force also noted that this disclosure requirement would be inconsistent with the basis for the decision to require reclassification of the foreclosed loan to a receivable rather than to real estate.

Transition Method

11. The Task Force reached a consensus-for-exposure that the amendments in the proposed Update resulting from this Issue would be applied using the same transition method elected by a reporting entity that applies the Update resulting from Issue 13-E. That Update will permit an entity to select (a) a modified retrospective transition method by means of a cumulative-effect adjustment as of the beginning of the annual reporting period for which the guidance is effective or (b) a prospective transition method.

12. The Task Force also considered whether a full retrospective transition method of application should be required. A full retrospective transition method generally achieves the greatest consistency of reported information across reporting periods. However, in this case, the Task Force observed that because the loans addressed in the proposed Update resulting from this Issue represent a subset of the loans addressed by the Update resulting from Issue 13-E, applying this guidance to periods before the period that the Update resulting from Issue 13-E is applied could result in reclassification of certain foreclosed real estate that should not have been initially reclassified out of loans. Therefore, the Task Force concluded that aligning the transition methods for the proposed Update and the Update resulting from Issue 13-E would achieve greater consistency for both Issues in reported information and would reduce complexity in the initial application of the proposed Update.

Effective Date and Early Application

13. The Task Force will determine the effective date after it considers stakeholder feedback on the proposed Update including feedback on the effective date for non-public entities based on the Private Company Decision-Making Framework. That framework states that based on private company resource limitations and the learning cycle in general, the amendments in the Update resulting from this Issue should be effective for private entities one year after the first annual period for which public companies are required to adopt them. The Task Force also decided that early adoption would be permitted but acknowledged that the timing of adoption would not necessarily align with the Update resulting from Issue 13-E.

Board Ratification

14. At its December 11, 2013 meeting, the Board ratified the consensus-for-exposure reached by the Task Force on this Issue and approved the issuance of a proposed Update for a 60-day public comment period.

Status

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

Status of Open Issues and Agenda Committee Items

The following represents the FASB staff's assessment of the status and immediate plans with respect to the open Issues on the Task Force's agenda. The Issues that will be added to the proposed agenda for the March 13, 2014 meeting will be considered either high priority issues or issues on which meaningful progress can be made within the staff's given complement of resources. The staff's prioritization of issues is based primarily on the FASB staff's understanding of the level of diversity in practice created by each respective Issue, the financial reporting implications of that diversity, the current interaction, if any, of the Issues with active Board projects, and current resource availability among the staff (with respect to both time and relevant technical expertise).

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
12-F	Recognition of New Accounting Basis (Pushdown) in Certain Circumstances	5/12	1/13; 3/13, 11/13	3/14	Evans	Gupta/ Or	The staff will prepare an Issue Supplement for the March 13, 2014 EITF meeting	March 13, 2014 EITF meeting
13-D	Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period	5/13	6/13; 9/13	3/14	Evans	Motley/ Schilb	The FASB staff will prepare an Issue Supplement addressing comments received on the proposed Update	March 13, 2014 EITF meeting
13-F	Accounting for the Effect of a Federal Housing Administration Guarantee	5/13	11/13	6/14	Althoff	May/ Sangiulo	The FASB staff will prepare an Issue Supplement addressing comments received on the proposed Update	Comment deadline April XX, 2014; June 12, 2014 EITF meeting

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
13-G	Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity	7/13	9/13	3/14	Bielstein	Milone/ Or	The FASB staff will prepare an Issue Supplement addressing comments received on the proposed Update	March 13, 2014 EITF meeting

Other EITF Issues including Inactive Issues Pending Developments in Board Projects							
Issue No.	**Description**	**Date Added**	**Date(s) Discussed**	**Next Meeting**	**FASB Staff**	**Immediate Plans**	**Due Date - Next Deliverable**
03-15	Interpretation of Constraining Conditions of a Transferee in a Collateralized Bond Obligation Structure	11/02	N/A	Not scheduled	TBD	Statement 166 addressed this Issue and, therefore, the FASB staff will request that the Issue be removed from the EITF's technical agenda at a future meeting.	Future Agenda Committee or EITF Meeting
06-12	Accounting for Physical Commodity Inventories for Entities within the Scope of the AICPA Audit and Accounting Guide, Brokers and Dealers in Securities	8/06	11/06	Not scheduled	TBD	No immediate plans to address this Issue.	Future EITF Meeting
09-D	Application of the AICPA Audit and Accounting Guide, Investment Companies, by Real Estate Investment Companies	2/09	N/A	Not scheduled	TBD	Pending the outcome of the Board's projects on consolidation, investment companies, and investment properties.	Future EITF Meeting
10-B	Accounting for Multiple Foreign Exchange Rates	3/10	7/10, 9/10	Not scheduled	TBD	No immediate plans to address this Issue.	N/A

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