

## EITF Snapshot.

by Jason Embick, Rich Paul, and Bob Uhl, Deloitte & Touche LLP

This *EITF Snapshot* summarizes the September 9–10, 2009, meeting of the Emerging Issues Task Force.

Initial Task Force consensuses (“consensuses-for-exposure”) are exposed for a comment period upon ratification by the Financial Accounting Standards Board. At its first scheduled meeting after the comment period, the Task Force considers comments received and, as warranted, affirms its consensuses-for-exposure as final consensuses. Those final consensuses are then provided to the Board for ratification.

After the September 23, 2009, FASB meeting, official EITF minutes, including the results of the FASB’s ratification process, will be posted to Technical Library: The Deloitte Accounting Research Tool and to the FASB’s Web site. EITF Issue summaries also can be found on those sites.

On July 1, 2009, the FASB launched the Accounting Standards Codification (ASC), a structural overhaul to U.S. GAAP that changes from a standards-based model (with thousands of individual standards) to a topically based model (with roughly 90 topics). For final consensuses that have been ratified by the Board, the ASC will be updated with an Accounting Standards Update (ASU), which is assigned a number that corresponds to the year and that ASU’s spot in the progression (e.g., 2010-01 will be the first ASU issued in 2010). ASUs will replace accounting changes that historically were issued as FASB Statements, FASB Interpretations (FINs), FASB Staff Positions (FSPs), or other types of FASB standards. In addition, all EITF issues will be finalized as ASUs. As a result of these changes, the numbering convention of all EITF Issues before finalization as ASUs will change. Rather than being assigned a number that corresponds to the year and that Issue’s spot in the progression (e.g., Issue 08-1 was the first Issue in 2008), a new Issue will be assigned a number that corresponds to the year in which it was added and a letter for where it falls in the progression. For example, the first EITF Issue added in 2010 will be referred to as Issue 10-A. The numbering used for previous EITF Issues under the old system will not be changed.

### Issue 08-1 Revenue Arrangements With Multiple Deliverables

**STATUS:** Final consensus.

**AFFECTS:** Entities that enter into revenue arrangements consisting of multiple deliverables. This Issue is not limited to a particular industry.

**BACKGROUND:** Before evaluating how to recognize revenue for transactions with multiple revenue-generating activities, an entity should identify all the deliverables in an arrangement. If there are multiple deliverables, an entity must evaluate each deliverable to determine the unit of accounting and whether it should be treated separately or in combination in accordance with ASC 605-25<sup>1</sup> (formerly Issue 00-21<sup>2</sup>) or other applicable guidance. Thus, under ASC 605-25, an entity may be required to combine multiple deliverables into a single unit of accounting. The Task Force added this Issue to its agenda to clarify certain aspects of the accounting in ASC 605-25.

Because of the complexity of this Issue and the various accounting literature that could be affected by a final consensus, the Task Force formed a working group in March 2008. Since that time, the working group has met to discuss several practice issues entities encounter when applying ASC 605-25, including:

- Whether a multiple-attribution model of revenue recognition is acceptable for a single unit of accounting.
- Whether access or standing ready to perform can be a deliverable.
- Whether and how contingent deliverables should affect revenue recognition.
- Whether revisions to the ASC 605-25 fair value threshold requirement are necessary.

<sup>1</sup> FASB Accounting Standards Codification Subtopic 605-25, *Revenue Recognition: Multiple-Element Arrangements*.

<sup>2</sup> EITF Issue No. 00-21, “Revenue Arrangements With Multiple Deliverables.”

- Whether it is acceptable to use the milestone method<sup>3</sup> as an attribution method of revenue recognition.
- How to apply the proportional performance model to a single unit of accounting composed of multiple deliverables.
- Whether it is acceptable to use a straight-line attribution method “for convenience” (e.g., for up-front fees).

The Task Force decided to address only two of these issues: it decided to revise the fair value threshold for separation in ASC 605-25 and to address whether the milestone method of revenue recognition is appropriate. The revisions to ASC 605-25 are included in this Issue (Issue 08-1), while guidance on the milestone method is included in Issue 08-9 (discussed below). Certain Task Force members and other constituents also questioned whether the amendments to ASC 605-25 should be considered in other authoritative accounting guidance, specifically ASC 985-605<sup>4</sup> (formerly SOP 97-2<sup>5</sup>). Accordingly, Issue 09-3 (discussed below) was added to the Task Force’s agenda.

The amendments to ASC 605-25 proposed in this Issue prompted the Task Force to reconsider the current disclosure requirements in ASC 605-25. A working group developed various qualitative and quantitative disclosure alternatives for the Task Force to consider at its June 2009 meeting.

#### **SUMMARY:**

The Task Force reached the following decisions regarding Issue 08-1 (each decision is explained in more detail below):

- To remove the fair value threshold for separation in ASC 605-25.
- To replace all references to “fair value” with the term “selling price.”
- To provide a hierarchy that entities must use to estimate the selling price.
- To eliminate the use of the residual method for allocation.
- To expand the ongoing disclosure requirements in ASC 605-25.

At the November 2008 EITF meeting, the Task Force decided to revise the fair value threshold for separation in ASC 605-25. For arrangements with multiple deliverables, the delivered item or items are considered a separate unit or units of accounting if certain criteria in ASC 605-25-25-5 (formerly paragraph 9 of Issue 00-21) are met; one of those criteria requires objective and reliable evidence of fair value for the undelivered item(s). The Task Force reached a consensus to eliminate this criterion. The Task Force also decided that ASC 605-25 should be amended to include a hierarchy for an entity to use when estimating the selling price of deliverables that meet the other two conditions for separation in ASC 605-25-25-5 (i.e., an entity must use the selling price that is highest in the hierarchy). That hierarchy is (1) vendor-specific objective evidence (VSOE) of the selling price, (2) third-party evidence (TPE) of the selling price, or (3) a best estimate of the selling price. In addition, the term “selling price” will replace all references to fair value in ASC 605-25. An effect of this amendment is that deliverables are expected to meet the separation criteria (i.e., be considered a separate unit of accounting) more frequently. Examples that clarify how to estimate the selling price if objective and reliable evidence of the selling price (i.e., VSOE or TPE of the selling price) is not available were included in the exposure draft and are expected to be included in the final ASU for this Issue.

The Task Force further discussed the appropriate method of allocating consideration to separate units of accounting in a particular revenue-generating arrangement. Currently, ASC 605-25 requires the use of the relative fair value allocation method only when objective and reliable evidence exists for all units of accounting in the arrangement. In the absence of objective and reliable evidence for the delivered item(s) in the arrangement, an entity must apply the residual allocation method. The residual allocation method requires an entity to allocate consideration to the delivered item(s) that equals the total arrangement consideration less the aggregate fair value of the undelivered item(s).

The Task Force decided to eliminate the residual allocation method and require an entity to apply the relative selling price allocation method in all circumstances. This decision affects arrangements in which a discount is present for the combined deliverables. Under the residual allocation method, that discount would be applied to the delivered unit of accounting; however, under the relative selling price allocation method, that discount is allocated among all the units of accounting in the arrangement on the basis

<sup>3</sup> The Task Force reached a tentative conclusion to describe the milestone method as a revenue recognition approach in which a vendor may recognize arrangement consideration received from the achievement of a milestone in its entirety in the period in which the milestone is achieved. (For more information, see the discussion of Issue 08-9 below.)

<sup>4</sup> FASB Accounting Standards Codification Subtopic 985-605, *Software: Revenue Recognition*.

<sup>5</sup> AICPA Statement of Position 97-2, *Software Revenue Recognition*.

of each unit's relative selling price. The relative selling price allocation approach will cause an entity to estimate selling price for all units of accounting, including delivered items, when VSOE or TPE does not exist for them. Previously under ASC 605-25, an entity applying the residual method may have only needed to determine that VSOE or TPE exists for the undelivered item(s).

Finally, the Task Force decided to require ongoing disclosures (quantitative and qualitative), by similar type of multiple-deliverable arrangement, about the significant judgments an entity uses in applying this Issue and changes in those judgments or in the application of this Issue that may significantly affect the timing or amount of revenue recognized. An entity would also be required to disclose inputs, methods, and significant assumptions it used in evaluating its arrangements and the significant deliverables in those arrangements. Issue 08-1's ongoing disclosure requirements will significantly expand the current requirements in ASC 605-25 and will affect all entities applying Issue 08-1, not just entities that have a change in separation or allocation because of Issue 08-1. (For information about the transition disclosure requirements, see "Effective Date and Transition" below.)

At its September 2009 meeting, the Task Force considered comments received on the exposure draft of this Issue and confirmed its previous consensus (as noted above), including those regarding the required use of the relative selling price method of allocation and the required disclosures. (Note that the Task Force decided not to include an example illustrating the required disclosures in the final ASU.) The Task Force also agreed to the following regarding Issue 08-1's effective date as well as regarding the required transition methods and disclosures.

## EFFECTIVE DATE

**AND TRANSITION:** The final consensus is effective for fiscal years beginning on or after June 15, 2010. Entities can elect to apply this Issue (1) prospectively to new or materially modified arrangements after the Issue's effective date or (2) retrospectively for all periods presented. Early application is permitted; however, if the entity elects prospective application and early adopts this Issue **after** its first interim reporting period, it must also do the following in the period of adoption: (1) retrospectively apply this Issue as of the beginning of that fiscal year and (2) disclose the effect of the retrospective adjustments on the prior interim periods' revenue, income before taxes, net income, and earnings per share.

If an entity elects prospective application of this Issue, it must provide transition disclosures that qualitatively describe the impact of adoption, including a description of how the entity changed its allocation of consideration to its units of accounting, changes in the pattern of revenue recognition, and whether this Issue will materially affect future periods. The entity must supplement these qualitative transition disclosures with quantitative information. For example, the entity may quantitatively disclose the amount of revenue that would have been recognized in the prior year if this Issue had been applied, or the amount of revenue that would have been recognized in the current year if the previous guidance in ASC 605-25 had been applied. However, this Issue is flexible regarding the form, content, and periods that the entity covers in these quantitative transition disclosures.

If an entity elects full retrospective adoption, it will need to follow the existing disclosure requirements in ASC 250-10-50<sup>6</sup> (formerly Statement 154<sup>7</sup>), including disclosure of the effect of the retrospective adjustments on the entity's financial information for prior interim and annual periods.

**NEXT STEPS:** FASB ratification is expected at the Board's September 23, 2009, meeting.

## Issue 08-9 Milestone Method of Revenue Recognition

**STATUS:** No consensus reached.

**AFFECTS:** Entities that enter into revenue arrangements in which the vendor satisfies its performance obligations over time and all or a portion of the arrangement consideration is contingent upon the achievement of milestones. This Issue is not limited to a particular industry.

**BACKGROUND:** This Issue was initially developed as part of Issue 08-1. (See the Background section under Issue 08-1 for more information.) The objective of this Issue is to establish a revenue recognition model for contingent consideration that is payable upon the achievement of an uncertain future event, referred to as a milestone. More specifically, a milestone is defined as an event that results in additional consideration, whose achievement at the inception of the arrangement is substantively uncertain, and whose achievement is based on or results from the vendor's performance. In certain situations, the entire amount

<sup>6</sup> FASB Accounting Standards Codification Subtopic 250-10, *Accounting Changes and Error Corrections: Overall*.

<sup>7</sup> FASB Statement No. 154, *Accounting Changes and Error Corrections*.

of consideration that is contingent upon the achievement of the milestone is recognized as revenue in the period in which the contingency is achieved. This accounting model is commonly referred to as the milestone method.

This Issue will require entities to determine whether the milestone method is appropriate for a particular arrangement by first identifying all milestones in the arrangement and then individually assessing whether those milestones are substantive. A milestone is considered substantive if consideration earned from achievement of the milestone (1) is commensurate with the vendor's performance or enhancement of the delivered item, (2) relates solely to past performance, and (3) is reasonable in comparison to the other deliverables and payment terms in the arrangement. The Issue also proposes certain quantitative and qualitative disclosures about the arrangements to which an entity applies the milestone method. Entities must apply other revenue recognition guidance to arrangement consideration that is not within the scope of this Issue.

**SUMMARY:**

At the March 2009 EITF meeting, the Task Force reached a consensus-for-exposure that the milestone method is an appropriate proportional performance method of revenue recognition for entities that enter into arrangements containing consideration that is contingent upon the achievement of substantive milestones. In that consensus-for-exposure, the Task Force acknowledged that the milestone method is only one acceptable revenue attribution model for such arrangements and that entities should apply the revenue recognition model that is most appropriate given the facts and circumstances.

At the June 2009 EITF meeting, the Task Force considered whether to change the milestone method, as described in this Issue, from an optional revenue recognition model for milestone (bonus) payments to make it the only model that is appropriate for milestone payments. At its September 2009 meeting, the Task Force decided that if an entity recognizes milestone payments in their entirety upon achievement of an event or circumstance, the entity would be required to apply the milestone method of revenue recognition, as described in Issue 08-9.

Also at the September meeting, the Task Force discussed whether the example in the Issue summary, which describes a customer service call-center that receives fixed bonus payments if a certain level of customer satisfaction rating is achieved, should be within the scope of this Issue. Some Task Force members suggested that the scope be limited to development-type arrangements. The Task Force did not decide whether the Issue's scope should be narrowed or broadened but directed the FASB staff to further study the implications of changing the scope for presentation at a future meeting.

**EFFECTIVE DATE**

**AND TRANSITION:** The previous consensus-for-exposure proposed that this Issue would be effective for interim periods beginning after issuance of a final consensus. The effective date and transition is pending the Task Force's decision about the scope of this Issue.

**NEXT STEPS:**

Further deliberations by the Task Force are expected at a future meeting.

## **Issue 09-2      Research and Development Assets Acquired in an Asset Acquisition**

**STATUS:**

Consensus-for-exposure.

**AFFECTS:**

Entities that acquire tangible and intangible research and development (R&D) assets (individually or with a group of assets) in an asset acquisition. This Issue is not limited to a particular industry.

**BACKGROUND:**

This Issue addresses inconsistencies between the accounting for R&D assets acquired in a business combination, accounted for under ASC 805<sup>8</sup> (formerly Statement 141(R)<sup>9</sup>), and those acquired in an asset acquisition. ASC 730-10<sup>10</sup> (formerly Statement 2<sup>11</sup>) provides guidance on R&D costs and requires an entity to expense R&D assets unless there is an alternative future use for them. Statement 141(R) amended ASC 730-10 to exclude from its scope R&D assets acquired in a business combination. Further, ASC 805 requires an acquirer to capitalize all R&D assets acquired in a business combination, regardless of whether they have an alternative future use. Statement 141(R) did not change the accounting for R&D assets acquired in an asset acquisition. Many constituents have questioned whether the changes in Statement 141(R) that are related to acquired R&D should also apply to R&D assets acquired in an asset acquisition.

<sup>8</sup> FASB Accounting Standards Codification Topic 805, *Business Combinations*.

<sup>9</sup> FASB Statement No. 141(R), *Business Combinations*.

<sup>10</sup> FASB Accounting Standards Codification Subtopic 730-10, *Research and Development: Overall*.

<sup>11</sup> FASB Statement No. 2, *Accounting for Research and Development Costs*.

At issue are the following:

- Whether to change the initial recognition of R&D assets acquired in an asset acquisition (i.e., whether to expense them immediately or capitalize them).
- If the Task Force decides that R&D assets acquired in an asset acquisition should be initially capitalized, how those assets should be subsequently accounted for.
- How to account for contingent consideration in an asset acquisition (i.e., a group of assets that do not meet the definition of a business in ASC 805).
- Whether the Task Force should include factors for entities to consider when determining whether contingent consideration that exists in an asset acquisition is payment for future services or consideration for the assets acquired.

**SUMMARY:**

The Task Force reached a consensus-for-exposure to require an entity to capitalize R&D assets acquired in an asset acquisition. In addition, the Task Force reached a consensus-for-exposure that acquired R&D assets should be considered indefinite-lived intangible assets until completion or abandonment of the related R&D activities, in accordance with paragraphs 15–17 of ASC 350-30-35<sup>12</sup> (formerly paragraph 16 of Statement 142<sup>13</sup>). After completion or abandonment, entities should determine the useful life of intangible R&D assets acquired by applying ASC 350-30 and should account for tangible R&D assets acquired according to their nature.

The Task Force reached a consensus-for-exposure that contingent consideration in an asset acquisition, except for contingent consideration in acquisitions of equity method investments, which is addressed in ASC 323-10<sup>14</sup> (formerly Issue 08-6<sup>15</sup>), should be accounted for in accordance with other sections of the Codification. In other words, the entity should first determine whether the contingent consideration arrangement meets the definition of a derivative that must be accounted for under ASC 815<sup>16</sup> (formerly Statement 133<sup>17</sup>). While the initial amount recognized for the derivative is added to the cost of the asset, all future adjustments of the derivative instrument would be recorded in earnings. If the contingent consideration arrangement is not a derivative, the entity would look to other relevant accounting literature to account for the contingent consideration arrangement, including ASC 450<sup>18</sup> (formerly Statement 5<sup>19</sup>). Under this guidance, all amounts paid, including any payments made upon the resolution of the contingency, would be added to the cost of the asset in accordance with the cost accumulation model.

Finally, the Task Force reached a consensus-for-exposure to include a principle under which the entity should analyze whether contingent consideration relates to the acquired asset or to future services provided by the seller. No additional factors, beyond those already in ASC 805-10-55-25, are expected to be included in the ASU.

**EFFECTIVE DATE**

**AND TRANSITION:** This Issue would be effective for transactions occurring in interim or annual periods beginning on or after December 15, 2009. Early application would not be permitted.

**NEXT STEPS:** FASB ratification is expected at the Board's September 23, 2009, meeting, after which the consensus-for-exposure will be exposed for a comment period.

## Issue 09-3 Certain Revenue Arrangements That Include Software Elements

**STATUS:** Final consensus.

**AFFECTS:** Entities that sell tangible products containing both hardware and software elements that are currently within the scope of ASC 985-605 (formerly SOP 97-2). This Issue is not limited to a particular industry.

**BACKGROUND:** Issue 08-1, summarized above, proposes to change the criteria in ASC 605-25 (formerly Issue 00-21) for determining when individual deliverables can be accounted for as separate units of accounting for revenue recognition purposes. During deliberations of that Issue, some constituents questioned whether the Task Force should reconsider the accounting for software revenue arrangements involving multiple deliverables

<sup>12</sup> FASB Accounting Standards Codification Subtopic 350-30, *Intangibles — Goodwill and Other: General Intangibles Other Than Goodwill*.

<sup>13</sup> FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

<sup>14</sup> FASB Accounting Standards Codification Subtopic 323-10, *Investments — Equity Method and Joint Ventures: Overall*.

<sup>15</sup> EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations."

<sup>16</sup> FASB Accounting Standards Codification Topic 815, *Derivatives and Hedging*.

<sup>17</sup> FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

<sup>18</sup> FASB Accounting Standards Codification Topic 450, *Contingencies*.

<sup>19</sup> FASB Statement No. 5, *Accounting for Contingencies*.



within the scope of ASC 985-605. The separation requirements in ASC 985-605 are somewhat similar to those in ASC 605-25, which Issue 08-1 will amend. More specifically, some have questioned whether the guidance in ASC 985-605-25-6 (formerly paragraph 10 of SOP 97-2) regarding allocation of the arrangement fee to multiple elements in an arrangement should conform to the guidance in Issue 08-1. ASC 985-605 allows for separation of the elements only when VSOE of fair value exists for an element, whereas Issue 08-1 provides a different separation model.

To address those concerns, the Task Force formed a working group to consider different alternatives for this Issue. That working group met and discussed two approaches for the Task Force to consider: (1) amend the scope of ASC 985-605 to include fewer arrangements with hardware and software elements or (2) replace the separation criteria in ASC 985-605-25-6 with guidance similar to that in Issue 08-1.

#### **SUMMARY:**

The Task Force reached a consensus to amend the scope of ASC 985-605 (formerly SOP 97-2 and Issue 03-5<sup>20</sup>) such that all tangible products containing both software and nonsoftware components that function together to deliver the product's essential functionality will no longer be within the scope of ASC 985-605. That is, the entire product (including the software deliverables and nonsoftware deliverables) would be outside the scope of revenue recognition guidance specific to software in ASC 985-605 and would be accounted for under other accounting literature.

The Task Force provided the following considerations for entities that are determining whether the software and nonsoftware components function together to deliver the product's essential functionality and are thus outside the revised scope of ASC 985-605:

- Sales of the tangible product without the software elements are infrequent.
- If the only difference between two product models is that one includes software and the other does not, both models should be considered the same product in the evaluation of whether software is essential to the product's functionality.
- Sales of software on a stand-alone basis should not cause a presumption that software is not essential to a product's functionality.
- The software does not necessarily need to be embedded within the tangible product to be considered essential to the product's functionality.
- The hardware must substantively contribute to the tangible product's essential functionality.

In addition, the consensus will include examples illustrating how entities would apply the revised scope provisions.

The Task Force also reached a consensus not to expand the disclosures in ASC 985-605. Because this Issue changes the scope of ASC 985-605, and because more arrangements will be subject to the guidance in ASC 605-25 (as amended by Issue 08-1), entities affected by this Issue will be subject to the significantly expanded disclosure requirements of Issue 08-1. (For more information, see the summary of Issue 08-1 above.)

#### **EFFECTIVE DATE**

**AND TRANSITION:** The final consensus has the same effective date and transition provisions as Issue 08-1. Accordingly, entities can elect to apply this Issue (1) prospectively to new or materially modified arrangements after the Issue's effective date or (2) retrospectively for all periods presented. Early application is permitted; however, if the entity elects prospective application and early adopts this Issue **after** its first interim reporting period, it must also do the following in the period of adoption: (1) retrospectively apply this Issue as of the beginning of that fiscal year and (2) disclose the effect of the retrospective adjustments on the prior interim periods' revenue, income before taxes, net income, and earnings per share.

If an entity elects prospective application of this Issue, it must provide transition disclosures that qualitatively describe the impact of adoption, including a description of how the entity has changed its allocation of consideration to its units of accounting, changes in the pattern of revenue recognition, and whether this Issue will materially affect future periods. The entity must supplement these qualitative transition disclosures with quantitative information. For example, the entity may quantitatively disclose the amount of revenue that would have been recognized in the prior year if this Issue had been applied, or the amount of revenue that would have been recognized in the current year if the previous guidance in ASC 985-605 had been applied. However, this Issue is flexible regarding the form, content, and periods the entity covers in these quantitative transition disclosures.

<sup>20</sup> EITF Issue No. 03-5, "Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software."

If an entity elects full retrospective adoption, it will need to follow the existing disclosure requirements in ASC 250-10-50 (formerly Statement 154), including disclosure of the effect of the retrospective adjustments on the entity's financial information for prior interim and annual periods.

**NEXT STEPS:** FASB ratification is expected at the Board's September 23, 2009, meeting.

## Issue 09-4 **Seller Accounting for Contingent Consideration**

**STATUS:** No consensus reached. No further discussion expected.

**AFFECTS:** Entities that sell a subsidiary (after adopting Statement 160<sup>21</sup>) and enter into a contingent consideration arrangement with the buyer. This Issue is not limited to a particular industry.

**BACKGROUND:** This Issue addresses the seller's initial and subsequent accounting for a contingent consideration arrangement associated with the sale of a subsidiary accounted for under Statement 160. Before Statement 160, the seller typically recognized the contingent consideration in earnings only after the contingency was resolved and the additional consideration was received. This accounting was similar to the accounting for a gain contingency under ASC 450 (formerly Statement 5). However, Statement 160 amends ASC 810-10<sup>22</sup> (formerly ARB 51<sup>23</sup> and other sources of consolidation guidance) and states that the seller should include "the fair value of any consideration received" in the calculation of the gain or loss upon deconsolidation of a subsidiary. However, neither ASC 810-10 nor Statement 160 provides explicit guidance on how the seller should account for the contingent consideration arrangement after the date of deconsolidation.

At issue are the following:

- Whether the seller should include the fair value of a contingent consideration arrangement in the calculation of its gain or loss on deconsolidation of a subsidiary.
- How to account for the seller's contingent consideration receivable (or payable) after the deconsolidation of a subsidiary.
- What information the seller should disclose about the contingent consideration arrangement.

**SUMMARY:** At its September 2009 meeting, the Task Force discussed two alternative views regarding the seller's initial accounting for a contingent consideration arrangement, but was unable to reach a consensus. Those views were:

1. The seller should recognize contingent consideration at its acquisition-date fair value and should include that amount in any gain or loss on the sale of the subsidiary.
2. The seller should recognize contingent consideration in accordance with ASC 450.

Because the Task Force was unable to reach a conclusion on the initial accounting, it did not discuss the subsequent accounting and disclosures relating to these arrangements. The EITF chairman and the SEC observer at the meeting acknowledged that both views are supportable under current accounting standards. Accordingly, in the absence of any future standard setting, there may be diversity in practice relating to the seller's initial, as well as its subsequent, accounting for a contingent consideration arrangement. Nevertheless, entities should establish and consistently apply an accounting policy for these types of arrangements.

**NEXT STEPS:** No further deliberations by the Task Force are expected.

<sup>21</sup> FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* — an amendment of ARB No. 51.

<sup>22</sup> FASB Accounting Standards Codification Subtopic 810-10, *Consolidation: Overall*.

<sup>23</sup> Accounting Research Bulletin No. 51, *Consolidated Financial Statements*.

## Issue 09-B

# Consideration of an Insurer's Accounting for Majority Owned Investments When the Ownership Is Through a Separate Account

**STATUS:** Consensus-for-exposure.

**AFFECTS:** Insurance companies that have a majority interest in a mutual fund through interests held by the separate accounts or through a combination of interests held by the general and separate accounts. This Issue applies to the insurance industry.

**BACKGROUND:** An insurance company often establishes separate accounts that legally protect the contract holder's assets from the company's general creditors. The contract holders (insured individual or organization) typically are given several investment options to choose from, including mutual funds. While the contract holders control all investment allocation decisions and are entitled to all returns on the investments (less a management fee paid to the insurance company), the insurance company typically has the ability to vote any shares on behalf of the contract holders. The insurance company may also have direct investments in these same mutual funds through interests held in its general account.

Under ASC 944-80<sup>24</sup> (formerly SOP 03-1<sup>25</sup>), the insurance company is required to measure the investments within its separate accounts at fair value and present these amounts as summary totals, apart from the general accounts of the insurance company, on the face of the consolidated statement of financial position if certain criteria are met (listed in paragraph 944-80-25-3). The predominant current practice is for insurance companies not to fully consolidate a mutual fund unless the insurance company's general account has a direct, majority interest in the mutual fund (e.g., a direct interest of more than 50 percent). However, in practice, the insurance company often proportionately consolidates any direct investment in a mutual fund (through the general accounts) if a majority interest in that mutual fund is held in combination by both the general and separate accounts.

At issue are the following:

- Whether an insurance company should fully consolidate a mutual fund when a majority interest is held by the separate accounts but the general accounts hold no direct investment in that mutual fund.
- Whether an insurance company should fully consolidate a mutual fund when a majority interest is owned through a combination of interests held by the general and separate accounts.
- If the insurance company consolidates a mutual fund under this Issue, how the consolidated mutual fund should be reflected in the financial statements of the insurer.

**SUMMARY:** At its September 2009 meeting, the Task Force reached a consensus-for-exposure that an insurance company would not be required to fully consolidate a mutual fund that is controlled by the separate accounts or through a combination of interests held by the general and separate accounts.

The Task Force also discussed the current industry practice in which the insurance company may apply proportionate consolidation to its direct investment in a mutual fund (through the general accounts) if a majority interest in that mutual fund is held in combination by both the general and separate accounts. See Example 2 in ASC 944-80-55 (formerly Appendix B of SOP 03-1). Although no decision was reached, the Task Force will ask constituents for feedback, in an invitation to comment, on how the general fund's investments should be presented in these situations.

## EFFECTIVE DATE

**AND TRANSITION:** This Issue would be effective for interim and annual periods beginning after December 15, 2010, and would have to be applied retrospectively to all prior periods. Early application would be permitted.

**NEXT STEPS:** FASB ratification is expected at the Board's September 23, 2009, meeting, after which the consensus-for-exposure will be exposed for a comment period.

<sup>24</sup> FASB Accounting Standards Codification Subtopic 944-80, *Financial Services — Insurance: Separate Accounts*.

<sup>25</sup> AICPA Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*.



## Issue 09-E

# Accounting for Distributions to Shareholders With Components of Stock and Cash in the Calculations and Presentation of Earnings per Share

**STATUS:** Consensus-for-exposure.

**AFFECTS:** Real estate investment trusts (REITs) that provide distributions to shareholders in the form of stock and cash. While this Issue is most applicable to the real estate industry, it affects any entity that gives its shareholders the option to receive dividends in shares or cash with a minimum aggregate amount of shares required in the distribution.

**BACKGROUND:** Under the Internal Revenue Code, a REIT is required to distribute at least 90 percent of its taxable income to its shareholders to maintain its REIT status. Historically, REITs have met this requirement by making distributions to shareholders in the form of cash payments. However, given the current economic environment and the difficulty in raising capital, the IRS has recently allowed REITs to make their required shareholder distributions in a combination of cash and stock as long as certain criteria are met. Examples of these criteria include (1) the REIT's stock must be publicly traded, (2) the shareholders must elect to receive their entire distribution in either cash or stock, and (3) cash must be greater than 10 percent of the total distribution. The REIT can also cap the total amount of cash to be distributed. In this case, shareholders electing for a cash distribution may end up receiving both cash **and** stock. If the entity caps the amount of cash that is distributed, a minimum amount of shares will be distributed to the shareholders (the "minimum stock portion").

This Issue addresses whether REITs should present the stock portion of a distribution as a stock dividend or as a stock issuance in the calculation of earnings per share. ASC 505-20-05-3<sup>26</sup> (formerly paragraph 8 of ARB 43, Chapter 7B<sup>27</sup>) states that a stock dividend "takes nothing from the property of the corporation" and that "the proportional interest of each shareholder remain the same." Stock dividends are reflected in the computation of basic and diluted earnings per share retroactively for all periods presented in accordance with ASC 260-10-55-12<sup>28</sup> (formerly paragraph 54 of Statement 128<sup>29</sup>). In contrast, a stock issuance is reflected in the computation of basic and diluted earnings per share prospectively as of the date the shares are issued.

**SUMMARY:** At its September 2009 meeting, the Task Force reached a consensus-for-exposure to require that an entity account for the minimum stock portion of the distribution as a stock dividend. Therefore, the entity will be required to retrospectively adjust all previously reported earnings per share amounts for the minimum stock portion. The Task Force also reached a consensus-for-exposure to require that the entity make such retrospective adjustments at the later of (1) the ex-dividend date or (2) the date the number of shares to be issued is known. In the period from when the stock dividend is declared to when it is retrospectively reflected in earnings per share, an entity should disclose the fact that the earnings per share will change in a future period and an estimate of the total amount of shares that will be issued.

## EFFECTIVE DATE

**AND TRANSITION:** This Issue would be effective for interim and annual reporting periods ending after December 15, 2009, and would require retrospective application to all prior periods.

**NEXT STEPS:** FASB ratification is expected at the Board's September 23, 2009, meeting, after which the consensus-for-exposure will be exposed for a comment period.

## Administrative Matters

**Update on Issue 09-D, "Application of the AICPA Audit and Accounting Guide *Investment Companies by Real Estate Investment Companies*"** — The FASB chairman added this Issue to the EITF agenda in February 2009. The Task Force plans to form a working group to provide additional insights and recommendations, and the Task Force will discuss this Issue at a future meeting.

**Topic D-86<sup>30</sup>** — At the Task Force's September 2009 meeting, the SEC observer announced the SEC staff's plans to revise Topic D-86. These revisions will clarify that posting of financial statements to a registrant's Web site could now be considered issuance of the financial statements.

<sup>26</sup> FASB Accounting Standards Codification Subtopic 505-20, *Equity: Stock Dividends and Stock Splits*.

<sup>27</sup> Accounting Research Bulletin No. 43, Chapter 7B, "Stock Dividends and Stock Split-Ups."

<sup>28</sup> FASB Accounting Standards Codification Subtopic 260-10, *Earnings per Share: Overall*.

<sup>29</sup> FASB Statement No. 128, *Earnings per Share*.

<sup>30</sup> EITF Topic No. D-86, "Issuance of Financial Statements."

## Subscriptions

If you wish to receive *Heads Up* and other accounting publications issued by Deloitte's Accounting Standards and Communications Group, please [register](http://www.deloitte.com/us/subscriptions) at [www.deloitte.com/us/subscriptions](http://www.deloitte.com/us/subscriptions).

## *Dbriefs* for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts presented each month on:

- Risk intelligence.
- Corporate governance.
- Private companies.
- FAS 109.
- Financial reporting.
- Driving enterprise value.
- Transactions and business events.

*Dbriefs* also provides a convenient and flexible way to earn CPE credit — right at your desk. [Join \*Dbriefs\*](#) to receive notifications about future webcasts at [www.deloitte.com/us/dbriefs](http://www.deloitte.com/us/dbriefs).

Registration is available for these upcoming 90-minute *Dbriefs* webcast:

- [EITF Roundup: Highlights of the September Meeting](#) (September 15).
- [Quarterly Accounting Roundup: An Update of Important Developments](#) (September 30).

Use the links above to register. The webcasts begin at 2 p.m. (EDT).

## Technical Library: The Deloitte Accounting Research Tool

Deloitte makes available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool, the library includes material from the FASB, the EITF, the AICPA, the PCAOB, the IASB, and the SEC, in addition to Deloitte's own accounting and SEC manuals and other interpretive accounting and SEC guidance.

Updated every business day, Technical Library has an intuitive design and navigation system that, together with its powerful search features, enable users to quickly locate information anytime, from any computer. In addition, Technical Library subscribers receive *Technically Speaking*, the weekly publication that highlights recent additions to the library.

For more information, including subscription details and an online demonstration, visit [www.deloitte.com/us/techlibrary](http://www.deloitte.com/us/techlibrary).

The purpose of this publication is to briefly describe matters discussed at the most recent meeting of the Emerging Issues Task Force. This summary was prepared by Deloitte's National Office Accounting Standards and Communications Group. Although this summary of the discussions and conclusions reached is believed to be accurate, no representation can be made that it is complete or without error. Official meeting minutes are prepared by the Financial Accounting Standards Board staff and are available approximately three weeks after each meeting. The official meeting minutes sometimes contain additional information and comments; therefore, this meeting summary is not a substitute for reading the official minutes. In addition, tentative conclusions may be changed or modified at future meetings.

Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.