

# EITF Roundup

Audit and Enterprise Risk Services

## September 2006

### Table of Contents

Issue No. 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service From the Service Provider"

Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"

Issue No. 06-5, "Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance With FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*"

Issue No. 06-6, "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments"

Issue No. 06-7, "Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*"

Issue No. 06-8, "Application of the Assessment of a Buyer's Continuing Investment Under FASB Statement No. 66, *Sales of Real Estate*, for Sales of Condominiums"

Issue No. 06-9, "Reporting a Change in (or Elimination of) a Previously Existing Difference Between the Fiscal Year-End of a Parent and a Consolidated Subsidiary or Equity Method Investee"

D-Topics

Agenda Committee Report

Next EITF Meeting

by Brian Maloney and Richard Starzecki, Deloitte & Touche LLP

This issue of *EITF Roundup* covers the September 7, 2006, meeting of the Emerging Issues Task Force. All initial Task Force decisions ("tentative conclusions") will be exposed for a comment period upon ratification by the Financial Accounting Standards Board. At its first scheduled meeting subsequent to the comment period, the Task Force considers comments received, redeliberates as necessary, and, as warranted, affirms its tentative conclusions as consensus. Consensus are not final until ratified by the FASB.

At the September 20, 2006, FASB meeting, the Board ratified the consensus and tentative conclusions reached by the Task Force at the September EITF meeting. The Board also approved exposure of the tentative conclusions for a comment period beginning on or after September 25, 2006, and ending on October 13, 2006. The next EITF meeting following the comment period is scheduled for November 15 and 16, 2006.

Official EITF minutes and EITF meeting materials are posted to both Technical Library: The Deloitte Accounting Research Tool and the FASB's Web site.

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 the National Office Accounting Standards and Communications Group of Deloitte & Touche LLP ("Deloitte & Touche"). 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 & Touche 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 & Touche shall not be responsible for any loss sustained by any person who relies on this publication.

## Issue No. 06-1, "Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service From the Service Provider"

STATUS: Consensus Reached

AFFECTS: Specialized service providers, such as certain cell phone or satellite media companies, that give consideration to manufacturers or resellers of equipment needed to obtain the service. For transactions within the Issue's scope, the service provider does not purchase or take title of the equipment, or sell the equipment directly to the end-customer.

EFFECTIVE: First annual reporting period beginning after June 15, 2007. Early application is permitted for financial statements not yet issued.

TRANSITION: Apply the consensus as a change in accounting principle through retrospective application to all prior periods presented.

Specialized service providers often give consideration to manufacturers or resellers of equipment necessary for an end-customer to utilize their service, commonly in an effort to reduce the price of the equipment (or otherwise increase end-customer demand for the service). Questions have been raised as to whether such consideration should be classified as a reduction of revenue or an expense in the service provider's income statement.

The Task Force affirmed its tentative conclusion as a consensus that consideration provided to a manufacturer or reseller should be characterized in the service provider's income statement, based on the **form** of consideration rendered to the end-customer **as directed by** the service provider. Consideration is deemed "directed by" the service provider if the manufacturer or reseller is contractually required to pass a specific form of consideration on to the end-customer (i.e., there is contractual linkage). "Directed" consideration is characterized in the income statement based on Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." That is, "cash consideration" is characterized as a reduction of revenue; "other than cash" consideration is characterized as an expense. If the form of consideration is **not** directed by the service provider, it should be characterized as "other than cash" (i.e., an expense). For purposes of applying this Issue, the term "cash consideration" does not include sales incentives (which would be considered "cash consideration" in Issue 01-9).

Consider the following example:

Company Z (Z) provides satellite television service to its subscribers. Subscribers are required to purchase a specific type of Digital Video Recorder (DVR) to receive Z's satellite signal. Company Z does not sell or manufacture DVRs; however, Z entered into a contractual arrangement with the reseller of the DVRs, under which the price of the DVR to the end-customer is reduced by \$150 — provided the customer signs up for satellite service. When the customer activates the service, Z reimburses the reseller for the \$150 discount.

In the example above, the consideration is in the form of an end-customer discount, which would be considered "other than cash" for purposes of applying the consensus. Accordingly, Company Z would characterize the cash payment to the reseller as an expense.

## Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements”

STATUS: Consensus Reached

AFFECTS: Entities (most notably community banks) with endorsement split-dollar life insurance arrangements that provide an employee with a specified benefit that is not limited to the employee’s active service period, including certain company-owned life insurance (COLI) or bank-owned life insurance (BOLI) policies.

EFFECTIVE: Fiscal years beginning after December 15, 2007, with earlier application permitted.

TRANSITION: Entities should recognize the effects of applying the consensus through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets as of the beginning of the year of adoption or (2) a change in accounting principle through retrospective application to all prior periods.

In a typical endorsement split-dollar life insurance arrangement, an employer purchases a policy to insure the life of an employee. The employer owns the policy, controls all rights of ownership, and may terminate the policy at any time. As a benefit of employment, the employer endorses a portion of the policy’s death benefit to the employee, with the employee designating a beneficiary. Upon the death of the employee, the employee’s beneficiary receives the designated portion of the death benefit, if any, and the employer receives the remainder. At issue is whether the employer should record a liability related to the postretirement benefit provided to the employee, or whether the purchase of the insurance policy effectively settles the obligation.

The Task Force affirmed its tentative conclusion as a consensus that an employer should recognize a liability for future benefits based on the substantive agreement with the employee. In reaching the consensus, the Task Force concluded that entering into an endorsement split-dollar life insurance arrangement does **not** qualify as a settlement under FASB Statement No. 106, *Employers’ Accounting for Postretirement Benefits Other Than Pensions*. The liability should be recognized in accordance with Statement 106 — if deemed part of a plan — or APB Opinion No. 12, *Omnibus Opinion* — 1967.

The Task Force acknowledged that the substantive agreement often takes the form of an employer’s commitment to keep an insurance policy in force during the employee’s retirement period. However, in determining the substance of an arrangement, all available evidence should be considered, including, but not limited to, the explicit written terms of the arrangement, communications between the employer and employee, and the identity of the primary obligor of the benefit (i.e., the employer or the insurance company).

Consider the following example:

Company Z (Z) purchases key person life insurance on its CEO. The policy has a \$1 million face value. A separate agreement is entered that splits the policy benefit such that at the time of the CEO’s death, Z is entitled to an amount equal to the cash surrender value (CSV) and the CEO’s beneficiary is entitled to the difference between the policy’s face value and the CSV. Company Z owns the policy, reserves the right to cancel it at any time with no obligation to the CEO or the beneficiary, and has no obligation to the beneficiary if the insurance company defaults. Communications to the CEO also state that based upon differences between actual and expected mortality, the beneficiary’s death benefit may in fact be zero (i.e., the CSV may equal the policy’s face value at the time of the CEO’s death).

In the above example, Company Z would accrue over the active service period a liability and corresponding compensation expense measured (under Statement 106 — if part of a plan — or Opinion 12) as the cost of maintaining the life insurance policy during the CEO’s retirement period.

## Issue No. 06-5, "Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance With FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*"

STATUS: Consensus Reached

AFFECTS: Entities with life insurance policies, including COLI or BOLI.

EFFECTIVE: Fiscal years beginning after December 15, 2006. Earlier application is permitted as of the beginning of a fiscal year for periods in which interim or annual financial statements have not been issued.

TRANSITION: Entities should recognize the effects of applying the consensus through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets as of the beginning of the year of adoption, or (2) a change in accounting principle through retrospective application to all prior periods.

For purchases of life insurance, Technical Bulletin 85-4 states that "the amount that **could be realized** under the insurance contract as of the date of the statement of financial position should be reported as an asset." [Emphasis added] The amount that "could be realized" is commonly the policy's cash surrender value; however, depending on the terms of the policy, *additional amounts* (e.g., experience reserve account balances, recovered deferred acquisition costs, etc.) may be realizable. Generally, these additional amounts are credited back to the policy holder's account balance over time, reducing the overall cost of insurance. Additionally, the amount that "could be realized" may differ depending on whether surrender is assumed at the individual policy or group level.

The Task Force affirmed its tentative conclusion as a consensus that a determination of the amount that could be realized under an insurance contract should (1) consider any additional amounts (beyond cash surrender value) included in the contractual terms of the policy and (2) be based on assumed surrender at the individual policy or certificate level, unless all policies or certificates are required to be surrendered as a group. When it is probable (as defined in FASB Statement No. 5, *Accounting for Contingencies*) that contractual restrictions would limit the amount that could be realized, such contractual limitations should be considered. Any amounts recoverable at the insurance company's discretion should be **excluded** from the amount that could be realized.

Fixed amounts recoverable in excess of one year should be recorded at their present values in accordance with APB Opinion No. 21, *Interest on Receivables and Payables*. Fixed amounts exclude the cash surrender value component of the policy, including situations where a contractual restriction may limit the entity's ability to surrender the policy. Said another way, provided the cash surrender value component continues to be credited with interest during the time of the restriction — that is, it does not become "fixed" — it should **not** be discounted in accordance with Opinion 21. However, any such contractual restrictions on surrender should be **disclosed**.

Consider the following example:

In January 20X6, Company A purchased a group life insurance policy that covered 10 executives and required a single premium payment of \$1 million at policy inception. The policy consists of 10 individual insurance certificates. At December 31, 20X6, the policy has the following values:

- Cash surrender value of \$1,000,000, surrender charges of \$100,000 (\$10,000 per individual certificate). If all certificates are surrendered as a group, the insurance company will waive the surrender charges. There is no requirement to surrender all certificates as a group.
- Experience reserve credits of \$50,000, reflecting favorable actual-to-expected experience to date. This balance is payable at maturity of the policy **or** when the final certificate of the group is surrendered.
- Deferred acquisition cost credits of \$25,000, calculated at their present value. There are no contractual restrictions on recovery of these amounts.

In the above example, the amount that could be realized at December 31, 20X6, under the consensus is \$975,000, comprising the \$900,000 cash surrender value (net of the surrender charges), the \$50,000 of experience reserve credits (recoverable upon surrender of the final certificate of the group), and the \$25,000 of deferred acquisition cost credits.

## Issue No. 06-6, "Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments"

STATUS:	Tentative Conclusion Reached
AFFECTS:	Entities modifying the conversion terms of convertible debt instruments, except in circumstances where the embedded conversion option is separately accounted for as a derivative under FASB Statement No. 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> .
EFFECTIVE:	Would be effective for future modifications (or exchanges) beginning in the first interim or annual reporting period beginning after FASB ratification. Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues," <b>remains</b> in effect pending a consensus and FASB ratification.
TRANSITION:	Entities would apply a consensus to future modifications (or exchanges) of convertible debt instruments. Early adoption would be permitted in periods where financial statements have not yet been issued. Retrospective application would <b>not</b> be permitted.
NEXT STEPS:	The tentative conclusion will be exposed for a comment period beginning on or after September 25, 2006.

Issue 05-7, ratified in September 2005, requires an entity to include the change in the fair value of the embedded conversion option in convertible debt, as calculated immediately before and immediately after the modification, as a cash flow when calculating whether the modification of a convertible debt instrument is "substantial" (as defined in Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments"). "Substantial" modifications result in the original debt instrument being considered extinguished. However, many modifications to convertible debt are quid pro quo, with the lender and borrower receiving or giving consideration equal to the fair value of the modification. As a result, the consideration received and given by the borrower has an offsetting impact, and the Issue 96-19 extinguishment test often yields a non-substantial change to the debt.

The Task Force reached a tentative conclusion that the change in fair value of an embedded conversion option associated with a modification of an embedded conversion option or an exchange of debt instruments should **not** be included in the cash flow analysis performed under Issue 96-19. However, if the cash flow analysis does not result in an extinguishment, a separate analysis must be performed on the conversion option in which an extinguishment will be deemed to have occurred if the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange is at least 10 percent of the carrying value of the debt immediately prior to the modification or exchange. In addition, extinguishment accounting would always be required for any modification or exchange that adds or eliminates a "substantive conversion option" (as defined in Issue No. 05-1, "Accounting for the Conversion of an Instrument That Becomes Convertible Upon the Issuer's Exercise of a Call Option").

The Task Force also reached a tentative conclusion that a modification to the terms of an embedded conversion option or an exchange of debt instruments that does not result in an extinguishment should be recognized as a change in the carrying amount of the debt — with the offset recorded to additional paid-in capital — provided the modification or exchange **increases** the fair value of the embedded conversion option. Decreases in the fair value of the embedded conversion option should not be recognized.

Consider the following example (amounts are for illustrative purposes only):

Company X (X) issues \$10,000,000 of convertible notes at par. The notes are convertible into 1,000,000 shares of X (representing a \$10 per share conversion price). The debt does not contain any beneficial conversion features. The conversion option does not require separate accounting under Statement 133 because it is indexed to X's stock and would be classified in equity if it were freestanding.

Six months after issuance, X agrees to modify the conversion option so the notes are now convertible into 1,428,600 shares (representing a \$7 per share conversion price) in exchange for a \$1,200,000 cash payment. All other terms of the note remain the same.

On the date of modification, the fair value of the original embedded conversion option is \$500,000. The fair value of the modified conversion option is \$1,700,000, representing a change of \$1,200,000 as a result of the modification.

In the example above, under the 96-19 test, as amended by Issue 05-7, the \$1,200,000 cash received by X and the \$1,200,000 change in fair value due to the modification of the conversion option offset each other, and the modification is not considered to be "substantial." Under the tentative conclusions in Issue 06-6, extinguishment accounting would be required as the \$1,200,000 cash payment causes the debt to fail the cash flow test (i.e., the \$1,200,000 cash received by X, which is the only change in the cash flows of the note, is in excess of 10 percent of the present value of the remaining cash flows under the terms of the original instrument). If, however, the cash payment did not exceed 10 percent of the present value of the remaining cash flows of the original debt instrument, X would proceed to the second test required under the tentative conclusion. In that case, the \$1,200,000 change in fair value of the conversion option exceeds 10 percent of the carrying value of the debt immediately prior to the modification. Accordingly, extinguishment accounting would be required.

### **Issue No. 06-7, "Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities"**

STATUS:	Tentative Conclusion Reached
AFFECTS:	Entities with previously bifurcated conversion options that no longer require separate accounting as a derivative under Statement 133.
EFFECTIVE:	Would be effective for interim and annual periods beginning after December 15, 2006. Early application would be permitted for periods in which financial statements have not been issued. Retrospective application would be permitted.
TRANSITION:	Entities would apply a consensus prospectively to all bifurcated conversion options in convertible debt instruments that no longer meet the bifurcation criteria in Statement 133.
NEXT STEPS:	The tentative conclusion will be exposed for a comment period beginning on or after September 25, 2006.

Conversion options are often required to be classified as a liability, in accordance with Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock," due to share settlement restrictions (e.g., requirement to deliver registered shares; conversion ratio is variable and thus required number of shares to be delivered is indeterminable; insufficient authorized and unissued shares to share settle all existing commitments that could require share settlement). Liability classification of the conversion option triggers bifurcation and separate accounting at fair value under Statement 133, because the conversion option is no longer considered to be clearly and closely related to the equity into which it is convertible. The criteria that caused liability classification can often be later satisfied, such that equity classification would then be appropriate for the conversion

option and Statement 133 accounting would no longer apply. Diversity exists in accounting for the removal of the Statement 133 liability when separate accounting is no longer required.

The Task Force reached a tentative conclusion that when a conversion option ceases to require separate accounting under Statement 133, the fair value of the conversion option, which represents a liability on the issuer's balance sheet, should be reclassified to shareholders' equity. Any debt discount recorded at issuance should continue to be amortized over the remaining term of the debt.

In deliberating the Issue, the Task Force reiterated its view that APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued With Stock Purchase Warrants*, only applies at issuance, and not to subsequent modifications; thus, the consensus reached should not be compared with Opinion 14 for consistency.

Consider the following example:

Company X (X) issues \$10,000,000 of convertible notes at par, convertible into 1,000,000 shares of X. Company X has 50,000,000 shares authorized and 45,000,000 issued and outstanding. Additionally, X has 4,500,000 of vested stock options outstanding. The options and convertible debt are the only potential share equivalents. At issuance, X's issued and outstanding shares plus its existing share commitments (4,500,000 options and 1,000,000 shares to settle the debt's conversion option) are in excess of its 50,000,000 authorized shares; thus, share settlement of the debt is not within the control of X. The conversion option must be bifurcated from the debt and separately accounted for at fair value. The fair value of the conversion option at issuance is \$1,000,000.

Six months after issuance of the convertible notes, X's shareholders authorize a 10,000,000 increase to its authorized shares, bringing the total authorized shares to 60,000,000. The fair value of the conversion option has increased to \$2,000,000. There have been no changes in X's vested stock options, and there are no other potential share commitments other than the convertible debt. Share settlement is now within the control of X; thus, the conversion option no longer requires bifurcation and separate accounting at fair value.

In the example above, the liability of \$2,000,000 should be reclassified to shareholders' equity. The \$1,000,000 debt discount recorded at issuance (associated with the separately accounted for conversion option) would continue to be amortized over the remaining term of the debt instrument.

## **Issue No. 06-8, "Application of the Assessment of a Buyer's Continuing Investment Under FASB Statement No. 66, *Sales of Real Estate*, for Sales of Condominiums"**

**STATUS:** Tentative Conclusion Reached

**AFFECTS:** Condominium developers.

**EFFECTIVE:** Would be effective for the first annual reporting period beginning after March 15, 2007. Earlier application would be permitted.

**TRANSITION:** Entities would recognize a consensus as a change in accounting principle through a cumulative-effect adjustment to retained earnings on other components of equity or net assets as of the beginning of the year of adoption.

**NEXT STEPS:** The tentative conclusion will be exposed for a comment period beginning on or after September 25, 2006.

Condominium developers often sell individual condominium units in advance of completing the entire project, with the buyer making a down payment at the time of sale. Statement 66 prescribes the minimum initial investment requirements for a down payment (expressed as a percentage of the sales value) in order for the transaction to qualify as a sale. In most cases, the buyer is **not** required to make additional payments to the developer during the construction term, which, depending on the nature of the project, can span several years.



In accounting for the sale, developers either apply the percentage-of-completion method — presuming the criteria listed in paragraph 37 of Statement 66 are met — or the deposit method. One criterion in paragraph 37 requires that the sale price be deemed **collectible** and references paragraph 4 of Statement 66 in assessing collectibility. Paragraph 4, in turn, assesses collectibility, in part, as being supported by the buyer's "substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller." Specifically at issue is whether (and how) the buyer's **continuing investment** applies to in-process condominium sales.

The Task Force reached a tentative conclusion that an entity should evaluate the adequacy of the buyer's initial and continuing investments in order to conclude that the sales price is collectible. An entity can meet the continuing investment test, pursuant to paragraph 12 of Statement 66, by requiring the buyer to either (1) make additional payments during the construction term at least equal to the level annual payment to fund principle and interest on a customary mortgage for the remaining purchase price of the property or (2) increase the minimum initial investment by an equivalent aggregate amount. In performing this assessment, a determination of the remaining purchase price should be made based on the sales price of the property. If the buyer's initial or **continuing** investment tests are not met, the developer should apply the deposit method.

Consider the following example:

A condominium developer enters a sales contract for an individual unit in a building that is under development. The purchase price of the unit is \$1,000,000. At contract signing, the buyer makes a \$50,000 (5 percent) down payment, which is sufficient to meet the minimum initial investment test under Statement 66. The buyer is **not** required to make any additional payments to the developer during the construction term, which is expected to last two years.

In the above example, the buyer meets the initial minimum investment test but does **not** meet the continuing investment test. Accordingly, the developer would apply the deposit method of accounting.

The Task Force is also requesting feedback from its constituents as to whether the effective date and transition provisions of this Issue are practical. Constituents are encouraged to use the comment letter period to express their views.

## **Issue No. 06-9, "Reporting a Change in (or Elimination of) a Previously Existing Difference Between the Fiscal Year-End of a Parent and a Consolidated Subsidiary or Equity Method Investee"**

STATUS:	Tentative Conclusion Reached
AFFECTS:	Entities that change or eliminate differences in a reporting period between a parent and a consolidated subsidiary or equity method investee.
EFFECTIVE:	A consensus would be effective for future changes to differences between the reporting period of a parent and a consolidated subsidiary or equity method investee beginning in the first interim or annual period after FASB ratification.
TRANSITION:	Entities would treat future changes as a change in accounting principle through retrospective application in accordance with FASB Statement No. 154, <i>Accounting Changes and Error Corrections</i> .
NEXT STEPS:	The tentative conclusion will be exposed for a comment period beginning on or after September 25, 2006.

There has been diversity in practice when characterizing a change in a consolidated subsidiary's or equity method investee's year-end. The diversity stems from whether this change is or is not considered a change in accounting principle as described in Statement 154. Prior to Statement 154, these changes, whether considered a change in



accounting principle or not, were typically recorded as a cumulative-effect adjustment to opening retained earnings in the year of change. With Statement 154 now in effect, if such a change is a change in accounting principle, entities would be required to retrospectively apply the change to all prior period financial statements presented.

The Task Force reached a tentative conclusion that a change in a subsidiary's or equity method investee's reporting period is a change in the method of applying an accounting principle. The parent should recognize the effects of the change as a change in accounting principle through retrospective application pursuant to Statement 154.

Consider the following example:

Parent company X (X) has a fiscal year-end of December 31. Company X's consolidated subsidiary Y (Y) has a fiscal year-end of September 30 and is consolidated by X based on Y's fiscal year-end. Company X wishes to conform Y's year-end with its own.

In the example above, X's consolidated financial statements include two years of balance sheets and three years of statements of operations. On a consolidated basis, X would adjust its opening retained earnings for the earliest year presented and retrospectively present the prior years' balance sheets and statements of operations as if Y's fiscal year-end had always been December 31.

## D-Topics

The Securities and Exchange Commission updated its EITF D-Topics, nullifying certain Issues that were no longer relevant, and amending others based on changes in the accounting literature.

The following D-Topics were nullified:

- Topic No. D-63, "Call Options "Embedded" in Beneficial Interests Issued by a Qualified Special-Purpose Entity," as paragraphs 9(c), 48, 50, and 85–88 of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, address the issues raised by this Topic.
- Topic No. D-73, "Reclassification and Subsequent Sale of Securities in Connection with the Adoption of FASB Statement No. 133," as all companies should have fully adopted Statement 133 and the issues addressed by this Topic have been resolved.
- Topic No. D-88, "Planned Major Maintenance Activities," pursuant to the FASB's upcoming FSP on Planned Major Maintenance (subsequently issued September 8). The FSP will address the issues previously covered by this Topic.

The following D-Topics were amended:

- Topic No. D-53, "Computation of Earnings per Share for a Period That Includes a Redemption or an Induced Conversion of a Portion of a Class of Preferred Stock," was amended to delete the references to APB Opinion No. 15, *Earnings per Share*, and AICPA Accounting Interpretation 44, *If Converted Method at Actual Conversion*, and add a "Subsequent Developments" section to address FASB Statement No. 128, *Earnings per Share*.
- Topic No. D-86, "Issuance of Financial Statements," was amended to delete footnote 4, which referenced examples in Issues No. 95-18, "Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs After the Balance Sheet Date but Before the Issuance of the Financial Statements," and No. 99-11, "Subsequent Events Caused by Year 2000." The SEC staff deleted the reference to the footnote because it did not contribute to the ultimate conclusion of the Topic.
- Topic No. D-98, "Classification and Measurement of Redeemable Securities," was amended to change the definition of the term "preferential distribution" to mean "a distribution different from other common shareholders." Additionally, a paragraph was added to note that FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*, does not address hybrid financial instruments classified in shareholders' equity and therefore Topic D-98 is still applicable.

## Agenda Committee Report

### Added to the agenda: “Application of AICPA Audit and Accounting Guide, Broker Dealers in Securities, to Entities That Engage in Commodity Trading Activities”

Financial intermediaries have expanded their portfolios to incorporate trading activities associated with physical commodities. The consensus in Issue No. 02-3, “Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities,” eliminated any basis for recognizing physical inventories at fair value, except as permitted by guidance in other higher categories of the GAAP hierarchy. The AICPA Audit and Accounting Guide (AAG), *Brokers and Dealers in Securities*, permits physical inventories to be recognized at fair value; however, there have been questions raised as to who is included in the scope of the AAG and who is not.

Consider the following example:

Company X is a registered broker dealer who has a consolidated subsidiary that is not a registered broker dealer. The consolidated subsidiary actively participates in trading physical commodities.

At issue is (1) whether the AAG should be applied to all entities registered under the Securities Exchange Act of 1934 and to their foreign subsidiaries that are regulated under comparable foreign regulations, or whether it should be applied to entities whose activities meet the definition, characteristics, and intent of broker dealer and trader activities, regardless of the entity's registration status and (2) whether entities within the scope of the AAG should be recording commodity inventory at fair value.

### Also added to the agenda: “Accounting for Joint Development, Manufacturing, and Marketing Arrangements in the Biotechnology and Pharmaceuticals Industries”

Companies often enter into agreements with other companies to share costs and revenues during the development and subsequent manufacturing and marketing of a large-scale product. In connection with these agreements, a separate legal entity is not established to house the joint operations of the new product. Questions have been raised as to the appropriate reporting for these types of arrangements.

At issue is (1) what types of collaborative arrangements should be included within the scope of the Issue; (2) how these types of arrangements should be reported in each of the parties' respective income statements; (3) how any sharing of payments should be recorded in the respective parties' income statements; and (4) what disclosures should be required.

The FASB is developing a working group to obtain a better understanding of these types of arrangements and their accounting. Based upon the FASB's findings, the Issue may change.

## Next EITF Meeting

The next EITF meeting is scheduled for November 15 and 16, 2006. Deloitte & Touche will host a *Dbriefs* webcast on November 22, 2006, covering the topics discussed at the meeting. [Join Dbriefs](#) to be notified of this and other upcoming webcasts.

## Subscriptions

If you wish to receive *EITF Roundup*, as well as other accounting publications issued by the Accounting Standards and Communications Group of Deloitte & Touche, 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 & Touche'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:

- Sarbanes-Oxley
- Corporate Governance
- Financial Reporting
- Driving Enterprise Value

*Dbriefs* also provides a convenient and flexible way to earn CPE credit — right at your desk. [Join \*Dbriefs\*](#) to be notified of upcoming webcasts.

On October 10 at 2:00 PM EDT, we will host a 60-minute webcast on "Quarterly Accounting Roundup: An Update of Important Developments." [Register](#) for this webcast today.

## Technical Library: The Deloitte Accounting Research Tool Available

Deloitte & Touche 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 manuals and other interpretative accounting 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. Additionally, Technical Library subscribers receive periodic e-mails highlighting 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).

### About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is an organization of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 150 countries. With access to the deep intellectual capital of approximately 135,000 people worldwide, Deloitte delivers services in four professional areas—audit, tax, consulting, and financial advisory services—and serves more than one-half of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global growth companies. Services are not provided by the Deloitte Touche Tohmatsu Verein, and, for regulatory and other reasons, certain member firms do not provide services in all four professional areas.

As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names.

In the U.S., Deloitte & Touche USA LLP is the U.S. member firm of Deloitte Touche Tohmatsu, and services are provided by the subsidiaries of Deloitte & Touche USA LLP (Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Financial Advisory Services LLP, Deloitte Tax LLP, and their subsidiaries) and not by Deloitte & Touche USA LLP. The subsidiaries of the U.S. member firm are among the nation's leading professional services firms, providing audit, tax, consulting, and financial advisory services through nearly 30,000 people in more than 80 cities. Known as employers of choice for innovative human resources programs, they are dedicated to helping their clients and their people excel. For more information, please visit the U.S. member firm's Web site at [www.deloitte.com/us](http://www.deloitte.com/us).