Deloitte.

EITF Snapshot

Audit and Enterprise Risk Services

November 2006

by Richard Starzecki and Brian Maloney, Deloitte & Touche LLP

This *EITF Snapshot* briefly summarizes the November 16, 2006, meeting of the Emerging Issues Task Force ("EITF" or "Task Force").

Upon ratification by the Financial Accounting Standards Board ("FASB" or "Board"), all tentative conclusions are exposed for a comment period. At its first scheduled meeting after the comment period, the Task Force considers comments received, and, as warranted, affirms its tentative conclusions as consensuses. Consensuses are then provided to the Board for ratification.

Deloitte & Touche LLP's *EITF Roundup*, which is published immediately after the Board's consideration of the tentative conclusions and consensuses reached, provides more in-depth information on each of the Issues. In addition, official EITF minutes and EITF Issue Summaries are posted to Technical Library: The Deloitte Accounting Research Tool and to the FASB's Web site.

Issue 06-6 Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments

STATUS: Consensus Reached

AFFECTS: Entities that modify the conversion terms of (or that exchange) convertible debt instruments that contain an embedded conversion option not separately accounted for as a derivative under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

SUMMARY: The Task Force affirmed its tentative conclusion, reaching a consensus that a change in fair value associated with the modification of an embedded conversion option or exchange of debt instruments should **not** be included in the analysis performed under Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments." However, if the Issue 96-19 analysis does not result in an extinguishment, a separate analysis must be performed on the conversion option, whereby 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 amount of the debt immediately prior to the modification or exchange.

In addition, extinguishment accounting is required for any modification or exchange that adds or eliminates a "substantive conversion option," as contemplated in EITF Issue No. 05-1, "Accounting for the Conversion of an Instrument That Became Convertible Upon the Issuer's Exercise of a Call Option."

The Task Force also affirmed its tentative conclusion, reaching a consensus that when such a modification or exchange does not result in an extinguishment, any increase in the fair value of the embedded conversion option should be recognized as a change in the carrying amount of the debt — with the offset recorded to additional paid-in capital. Decreases in the fair value of the embedded conversion option should **not** be recognized.

EFFECTIVE: Applies to modifications or exchanges occurring in the first interim or annual reporting period beginning after FASB ratification.

NEXT STEPS: FASB ratification is expected on November 29, 2006.

Issue 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: Consensus Reached

AFFECTS: Entities with previously bifurcated conversion options that no longer require separate accounting as a derivative under Statement 133.

SUMMARY: The Task Force affirmed its tentative conclusion, reaching a consensus that an issuer should account for a previously bifurcated conversion option in a convertible debt instrument by reclassifying the then fair value of the associated liability to shareholders' equity, with continued amortization of the original debt discount over the remaining term of the debt instrument.

In addition to the issues discussed at the September 2006 meeting, the Task Force clarified that (1) upon exercise of a conversion option previously reclassified to shareholders' equity, an issuer should immediately recognize any remaining unamortized discount as interest expense, and (2) if an in-scope convertible debt instrument is extinguished for cash (or other assets) before reaching its stated maturity, a portion of the reacquisition price should be charged to shareholders' equity based on the fair value of the conversion option at the date of the extinguishment, with the remaining reacquisition price being allocated to the debt extinguishment in determining the gain or loss.

EFFECTIVE: Interim or annual reporting periods beginning after December 15, 2006.

NEXT STEPS: FASB ratification is expected on November 29, 2006.

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

STATUS: Consensus Reached

AFFECTS: Condominium developers.

SUMMARY: The Task Force affirmed its tentative conclusion, reaching a consensus that an entity should evaluate the adequacy of the buyer's continuing investment, pursuant to paragraph 12 of Statement 66, in determining whether to recognize profit under the percentage-of-completion method.

In addition to the issues discussed at the September 2006 meeting, the Task Force clarified that (1) the buyer's initial and continuing investment test should only consider nonrefundable amounts, and (2) when an entity assesses or reassesses the criteria in paragraph 37 of Statement 66, the adequacy of the buyer's initial and continuing investment should be evaluated as of the assessment or reassessment date.

EFFECTIVE: The first annual reporting period beginning after March 15, 2007.

NEXT STEPS: FASB ratification is expected on November 29, 2006.

Issue 06-9 Reporting a Change in (or the Elimination of) a Previously Existing Difference Between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or Between the Reporting Period of an Investor and That of an Equity Method Investee

STATUS: Consensus Reached

AFFECTS: Entities that change, or eliminate, differences in a reporting period between a parent and a consolidated entity or an investor and an equity method investee.

SUMMARY: The Task Force affirmed its tentative conclusion, reaching a consensus that a parent or an investor should report a change to, or elimination of, a difference between the reporting period of a consolidated entity or equity method investee, respectively, as a **change in accounting principle** in the parent's or investor's consolidated financial statements.

The parent or investor should recognize the effects of such a change through retrospective application pursuant to FASB Statement No. 154, *Accounting Changes and Error Corrections*.

EFFECTIVE: Future changes beginning in the first interim or annual reporting period following FASB ratification.

NEXT STEPS: FASB ratification is expected on November 29, 2006.

Issue 06-10 Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements

STATUS: Tentative Conclusion Reached

AFFECTS: Entities participating in collateral assignment split-dollar life insurance arrangements that provide an employee benefit extending into an employee's postretirement period.

SUMMARY: The Task Force reached a tentative conclusion that an entity should recognize a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, *Employer's Accounting for Postretirement Benefits Other Than Pensions* (if part of a plan), or APB Opinion No. 12, *Omnibus Opinion — 1967*.

An entity should measure and recognize the asset associated with a collateral assignment split-dollar life insurance arrangement based on the substantive terms of the arrangement.

EFFECTIVE: Would be effective for fiscal years beginning after December 15, 2007.

NEXT STEPS: The FASB is expected to ratify the tentative conclusion on November 29, 2006, and approve it for exposure.

Issue 06-11 Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards

STATUS: Tentative Conclusion Reached

AFFECTS: Entities that pay dividends or provide dividend protection on employee-held equity-classified nonvested shares, nonvested share units, or outstanding share options (together "affected securities").

SUMMARY: The Task Force reached a tentative conclusion that an entity should recognize, as an increase to additional paid-in capital, a **realized** tax benefit related to dividends (or dividend equivalents) paid to employees holding affected securities and charged to retained earnings under FASB Statement No. 123(R), *Share-Based Payment*.

EFFECTIVE: Would be effective for annual reporting periods beginning after September 15, 2007.

NEXT STEPS: The FASB is expected to ratify the tentative conclusion on November 29, 2006, and approve it for exposure.

Issue 06-12 Application of AICPA Audit and Accounting Guide, *Brokers and Dealers in Securities*, to Entities That Engage in Commodity Trading Activities and Related Issues

STATUS: No Decision Reached

AFFECTS: Registered and non-registered broker-dealers, as well as other entities that conduct business activities consistent with those of a broker-dealer.

SUMMARY: No tentative conclusions were reached. The Task Force discussed whether:

- The scope of the AICPA Brokers and Dealers in Securities Guide (the Guide) applies to (1) an entity registered as a broker-dealer under the Securities Exchange Act of 1934 (or comparable foreign regulation), (2) a consolidated entity — provided that the predominant characteristics of the consolidated entity are consistent with those of a broker-dealer, or (3) an individual legal entity that performs activities consistent with those of a broker-dealer.
- Entities within the scope of the Guide should record physical commodity inventory at fair value.

NEXT STEPS: The Task Force made an agenda request to the Board to add a project addressing whether traded, physical commodity inventory should be carried at fair value. In addition, the FASB staff will continue its research regarding application of the Guide, including requirements beyond valuation of physical commodity inventory, and report its findings at the March 2007 EITF meeting.

Subscriptions

If you wish to receive *EITF Snapshot* and *EITF Roundup,* as well as other accounting publications issued by the Accounting Standards and Communications Group of Deloitte & Touche, please register at 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
- Financial Reporting
- Corporate Governance
- 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 November 21 at 2:00 PM EDT, we will host a 60-minute webcast, "EITF Roundup: Highlights of the November Meeting." 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.