

EITF Snapshot.

by Jim May, Rich Paul, and Bob Uhl, Deloitte & Touche LLP

This EITF Snapshot summarizes the March 19, 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 consensuses. Those consensuses are then provided to the Board for final ratification.

After the April 1, 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.

Issue 08-1 Revenue Arrangements With Multiple Deliverables

STATUS: Tentative conclusions reached.

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, entities should identify all the deliverables in an arrangement. Some arrangements may contain only one deliverable. If there are multiple deliverables, each deliverable must be evaluated to determine the unit of accounting and whether it should be treated separately or in combination in accordance with Issue 00-21¹ or other applicable guidance. Thus, under Issue 00-21, 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 Issue 00-21.

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. Over the past year, the Working Group has met to discuss several practice issues entities encounter when applying Issue 00-21, including the following:

- 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 Issue 00-21 fair value threshold requirement are necessary.
- Whether it is acceptable to use the milestone method² 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 Issue 00-21 and to address whether the milestone method of revenue recognition

¹ EITF Issue No. 00-21, “Revenue Arrangements With Multiple Deliverables.”

² The Task Force reached a consensus-for-exposure to describe the milestone method as a revenue recognition approach in which a vendor recognizes 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.)

is appropriate. The revisions to Issue 00-21 are included in this Issue (Issue 08-1), while guidance on the milestone method is included in EITF Issue No. 08-9, "Milestone Method of Revenue Recognition" (discussed below).

The amendments to Issue 00-21 proposed in this Issue prompted certain Task Force members and other constituents to question whether those amendments should also be considered in other authoritative accounting guidance, specifically SOP 97-2.³ For more information, see Issue 09-3, "Applicability of SOP 97-2 to Certain Arrangements That Include Software Elements" (discussed below).

SUMMARY:

At the November 2008 EITF meeting, the Task Force reached a consensus-for-exposure to revise the fair value threshold for separation in Issue 00-21. For arrangements with multiple deliverables, the delivered item or items are considered a separate unit or units of accounting if certain criteria in 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 Issue 00-21 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 paragraph 9 of Issue 00-21 (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) an estimate of the selling price. In addition, the term "selling price" will replace all references to fair value in Issue 00-21. Therefore, deliverables are expected to meet the separation criteria (i.e., be considered a separate unit of accounting) more frequently. The abstract is expected to include 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.

At the March 2009 EITF meeting, the Task Force further discussed the appropriate method of allocating consideration to separate units of accounting in a particular revenue-generating arrangement. Currently, Issue 00-21 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, a vendor 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 reached a tentative conclusion 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 of each unit's relative selling price. The relative 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. Under Issue 00-21, an entity applying the residual method may have only needed to determine that VSOE or TPE exists for the undelivered item(s).

The Task Force also reached a tentative conclusion to require certain qualitative disclosures about an entity's methods and inputs used to estimate selling price. The Task Force discussed various suggestions for quantitative disclosures that would supplement the qualitative disclosures. The FASB staff was directed to develop disclosure alternatives for Task Force consideration at a future meeting. These disclosures may significantly expand the current requirements in Issue 00-21 and would affect all entities applying Issue 08-1, not just entities that have a change in separation or allocation because of Issue 08-1.

EFFECTIVE DATE

AND TRANSITION: The consensus-for-exposure proposed in this Issue would be effective for fiscal years beginning after December 15, 2009. Entities would apply this Issue prospectively to new or materially modified arrangements after the Issue's effective date. Early application would be permitted. The Task Force has tentatively decided to require certain transition disclosures that would provide financial statement users with information about assessing the impact of prospective adoption of Issue 08-1 in contrast to full retrospective application.

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

³ AICPA Statement of Position 97-2, *Software Revenue Recognition*.

Issue 08-9 Milestone Method of Revenue Recognition

STATUS: Consensus-for-exposure.

AFFECTS: Entities that enter into revenue arrangements in which the vendor satisfies its performance obligations to a customer 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 a specified future event, referred to as a milestone. In certain situations, the entire amount of consideration that is contingent upon the achievement of the milestone is recognized as revenue in the period received. This accounting model is commonly referred to as the milestone method. This Issue defines a milestone, provides guidance on when a milestone is considered substantive, and clarifies when it is appropriate for a vendor to recognize contingent consideration (in its entirety) upon the achievement of that milestone.

SUMMARY: 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. 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.

Entities within the scope of this Issue will have to determine whether the milestone method is appropriate for a particular arrangement by first identifying all milestones in the arrangement and then assessing whether those milestones are substantive. The Issue will define a milestone and provides guidance on when milestones are considered substantive. For arrangement consideration not within the scope of this Issue, entities must apply other revenue recognition guidance. The Exposure Draft is also expected to include certain quantitative and qualitative disclosures about the arrangements to which an entity applies the milestone method.

EFFECTIVE DATE

AND TRANSITION: A consensus would be effective for interim periods beginning after issuance of a final consensus. After this Issue's effective date, entities would account for any accounting policy change as a result of this Issue in accordance with Statement 154.⁴

NEXT STEPS: FASB ratification is expected at the Board's April 1, 2009, meeting, after which the consensus-for-exposure will be exposed for a comment period.

Issue 09-1 Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance

STATUS: Consensus-for-exposure.

AFFECTS: Entities that enter into a share-lending arrangement on their own shares in contemplation of a convertible debt offering.

BACKGROUND: Certain entities that have recently issued convertible debt have also executed share-lending arrangements on their own shares with the investment bank underwriting that issuance for below market consideration (usually for the par value of the shares lent to the investment bank). An offering of convertible debt securities generally involves three parties: an issuer, an underwriter, and investors. A typical strategy for investors is to hedge the embedded conversion option (long position on the issuer's shares) through a derivative with the underwriter (short position on the issuer's shares). If shares of the issuer are not readily available in the market for the underwriter to hedge its exposure from the derivative with the investors (i.e., to create an offsetting short position on the issuer's shares), the underwriter will enter into a share-lending arrangement with the issuer. These share-lending arrangements typically require the investment bank to return the shares to the issuer within a specified period and reimburse the issuer for any dividends paid on those shares while the lending arrangement is outstanding. While the share-lending arrangement with the underwriter is executed at below market rates, the issuer benefits under the arrangement by completing the issuance of the convertible debt for less of an underwriting fee or a lower interest rate than would otherwise be attainable.

⁴ FASB Statement No. 154, *Accounting Changes and Error Corrections* — a replacement of APB Opinion No. 20 and FASB Statement No. 3.

At issue are the following:

- How the convertible debt issuer should account for the share-lending arrangement.
- What effect the share-lending arrangement has on the calculation of earnings per share (EPS).

SUMMARY:

The Task Force reached a consensus-for-exposure to require an entity that enters into a share-lending arrangement on its own shares in contemplation of a convertible debt issuance to account for (1) the share-lending arrangement as debt issuance costs and (2) the convertible debt issuance pursuant to other applicable U.S. GAAP (e.g., if the convertible instrument is within the scope of FSP APB 14-1,⁵ the issuer would separate the instrument at inception pursuant to that guidance). The Task Force also reached a consensus-for-exposure to exclude the shares borrowed under the share-lending arrangement from basic and diluted EPS. This EPS treatment is consistent with the EPS treatment of a physically settled forward contract to repurchase a fixed number of an entity's shares pursuant to paragraph 25 of Statement 150.⁶

The Task Force also reached a consensus-for-exposure to require entities to provide certain disclosures about the share-lending arrangement, including (1) a description of the share-lending arrangement, (2) the entity's reason for entering into the arrangement, (3) the maximum potential economic loss as of the balance sheet date (e.g., the fair value of the securities currently outstanding), (4) the EPS treatment of the shares underlying the arrangement, and (5) the unamortized carrying amount of debt issuance costs associated with the share-lending arrangement and the amount amortized during the current period.

EFFECTIVE DATE

AND TRANSITION: A consensus would be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2009. Entities would apply this Issue retrospectively to share-lending arrangements outstanding on the Issue's effective date.

NEXT STEPS: FASB ratification is expected at the Board's April 1, 2009, meeting, after which the consensus-for-exposure will be exposed for a comment period.

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

STATUS: Tentative conclusions reached.

AFFECTS: Entities that acquire tangible and intangible research and development (R&D) assets (individually or with a group of assets) in an asset acquisition.

BACKGROUND: This Issue addresses inconsistencies between the accounting for R&D assets acquired in a business combination, accounted for under Statement 141(R),⁷ and those acquired in an asset acquisition. Statement 2⁸ 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 Statement 2 to exclude from its scope R&D assets acquired in a business combination. Further, Statement 141(R) 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 costs 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 acquired in an asset acquisition.

At issue are the following:

- Whether to change the initial recognition of R&D costs acquired in an asset acquisition (i.e., whether to expense them immediately or capitalize them).
- If the Task Force decides that R&D costs acquired in an asset acquisition should be initially capitalized, how those assets should be subsequently accounted for.

SUMMARY:

The Task Force reached a tentative conclusion to require an entity to capitalize R&D acquired in an asset acquisition. The Task Force discussed the accounting for contingent consideration in an asset acquisition but was unable to reach a conclusion. The Task Force discussed how to distinguish contingent consideration to compensate the seller of the R&D for future services from contingent consideration paid for the R&D assets acquired. The FASB staff was directed to develop alternatives for analyzing whether contingent consideration should be capitalized as an acquired asset or expensed under Statement 2 for Task Force consideration at a future EITF meeting.

⁵ FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)."

⁶ FASB Statement No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*.

⁷ FASB Statement No. 141(R), *Business Combinations*.

⁸ FASB Statement No. 2, *Accounting for Research and Development Costs*.

The Task Force also reached a tentative conclusion 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 paragraph 16 of Statement 142.

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

Issue 09-3 **Applicability of SOP 97-2 to Certain Arrangements That Include Software Elements**

STATUS: Tentative conclusions reached.

AFFECTS: Entities that enter into revenue arrangements consisting of the licensing, selling, leasing, or otherwise marketing of computer software, including revenue arrangements that contain products or service containing software that is more than incidental. This Issue is not limited to a particular industry.

BACKGROUND: Issue 08-1, summarized above, proposes to change the criteria in 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 within the scope of SOP 97-2. The separation requirements in SOP 97-2 are somewhat similar to those in Issue 00-21, which Issue 08-1 proposes to replace. More specifically, some have questioned whether the guidance in paragraph 10 of SOP 97-2 regarding allocation of the arrangement fee to the multiple elements in the arrangement should conform with the criteria in Issue 08-1. SOP 97-2 allows for separation of the elements only when VSOE of fair value exists for an element, whereas Issue 08-1 proposes a much different separation model. To address those constituent 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 SOP 97-2 such that fewer arrangements with hardware and software elements would be within the scope of that guidance or (2) replace the separation criteria in paragraph 10 of SOP 97-2 with guidance that is similar to that proposed in Issue 08-1.

SUMMARY: The Task Force tentatively concluded to amend the scope of SOP 97-2 so that fewer arrangements with hardware and software elements would be within the scope of that guidance. In doing so, the Task Force tentatively concluded that a tangible product containing both software and nonsoftware components that function together to deliver the product's essential functionality should be accounted for as a nonsoftware deliverable (i.e., should be outside the scope of SOP 97-2). The Task Force plans to further develop this approach at a future meeting and has asked the FASB staff to provide examples on the application of this tentative conclusion.

At a future meeting, the Task Force will also consider whether to require disclosures similar to those being developed as part of Issue 08-1. See Issue 08-1 above for more information.

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

Administrative Matters

Issue 09-B, "Consideration of an Insurer's Accounting for Majority Owned Investments When the Ownership Is Through a Separate Account" — The FASB chairman added this project to the EITF agenda in January 2009; however, the Task Force did not discuss it at the March meeting. The Task Force plans to discuss this Issue at its June 2009 meeting. This Issue addresses how an insurer should account for a majority interest in a mutual fund when all or a portion of that interest includes separate account assets representing contract holder funds. At the March meeting, the SEC observer stated that the SEC would not object to a registrant applying any of the views described in the EITF's March 2009 agenda report until the Task Force is able to address this issue.

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; however, the Task Force did not discuss it at the March meeting. The Task Force plans to discuss this Issue at its June 2009 meeting.

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.

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.

Registration is available for these upcoming 60-minute *Dbriefs* webcast:

- [Oversight of the Fiscal Stimulus Bill: Transparency in a New Age](#) (March 23).
- [EITF Roundup: Highlights of the March Meeting](#) (March 27).

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.

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 for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.