

EITF Snapshot.

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

This *EITF Snapshot* summarizes the November 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 final consensuses. Those final consensuses are then provided to the Board for ratification.

After the December 2, 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 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.

The numbering system for EITF Issues (i.e., before their finalization as ASUs) will also 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 09-2 **Research and Development Assets Acquired and Contingent Consideration Issued in an Asset Acquisition**

STATUS: No consensus reached. No further discussion expected.

AFFECTS: Entities that (1) acquire tangible and intangible research and development (R&D) assets (individually or with a group of assets) in an asset acquisition and (2) are involved in an asset acquisition that includes a contingent consideration arrangement. This Issue is not limited to a particular industry.

BACKGROUND: This Issue was added to the EITF agenda as a result of two inconsistencies between the accounting for asset acquisitions and the accounting for business combinations under ASC 805¹ (formerly Statement 141(R)²).

The first inconsistency relates to the accounting for acquired R&D assets. ASC 730-10³ (formerly Statement 2⁴) 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. Under ASC 805, an acquirer must capitalize all such assets, regardless of whether they have an alternative future use. Many constituents have questioned whether Statement 141(R)’s changes to the accounting for R&D assets acquired in a business combination should also apply to R&D assets acquired in an asset acquisition.

The second inconsistency relates to the accounting for contingent consideration. Statement 141(R) changed the accounting for contingent consideration in a business combination. ASC 805 requires the acquirer to recognize contingent consideration at fair value as of the acquisition date. However, under

¹ FASB Accounting Standards Codification Topic 805, *Business Combinations*.

² FASB Statement No. 141(R), *Business Combinations*.

³ FASB Accounting Standards Codification Subtopic 730-10, *Research and Development: Overall*.

⁴ FASB Statement No. 2, *Accounting for Research and Development Costs*.

current practice for an asset acquisition, if the contingent consideration arrangement is not a derivative, the entity generally accounts for it in accordance with other relevant accounting literature, such as ASC 450⁵ (formerly Statement 5⁶). Constituents have questioned whether Statement 141(R)'s changes to the accounting for contingent consideration in a business combination should also apply to asset acquisitions.

At issue are the following:

- Whether to change the accounting for initial recognition of R&D assets acquired in an asset acquisition (i.e., whether they should be expensed immediately or capitalized).
- If the Task Force decides that intangible 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 previously issued an exposure draft that would have required an entity to capitalize R&D assets acquired in an asset acquisition. Under that proposal, the entity would have classified acquired intangible R&D assets as indefinite-lived until completion or abandonment of the related R&D activities, in accordance with paragraphs 15–17 of ASC 350-30-35⁷ (formerly paragraph 16 of Statement 142⁸). After completion or abandonment, entities would have determined the useful life of intangible R&D assets acquired by applying ASC 350-30 and would have accounted for tangible R&D assets acquired according to their nature.

The Task Force's proposal would have also required that contingent consideration in an asset acquisition, except for contingent consideration in acquisitions of equity method investments, which is addressed in ASC 323-10⁹ (formerly Issue 08-6¹⁰), be accounted for in accordance with other sections of the Codification. In other words, the entity would first have determined whether the contingent consideration arrangement meets the definition of a derivative that must be accounted for under ASC 815¹¹ (formerly Statement 133¹²). While, under the proposal, the initial amount recognized for the derivative would have been added to the cost of the asset, all future adjustments of the derivative instrument would have been recorded in earnings. If the contingent consideration arrangement was not a derivative, the entity would have looked to other relevant accounting literature, including ASC 450, to account for the contingent consideration arrangement, and any payments made upon the resolution of the contingency would have been added to the cost of the asset in accordance with the cost accumulation model.

The Task Force redeliberated this Issue at its November 2009 meeting but was unable to reach a final consensus. Some Task Force members expressed concerns about addressing R&D costs only in the context of an asset acquisition, while others believe that measuring contingent consideration at an amount other than fair value might not reflect the economics of the transaction as of the acquisition date. Those that were concerned about addressing only R&D assets acquired in an asset acquisition highlighted the differences between the Issue's proposed accounting model for R&D acquired in an asset acquisition and the accounting for internally generated R&D, which is typically expensed under existing GAAP. Those that were concerned about the measurement of the consideration transferred highlighted that the accounting models for asset acquisitions (cost accumulation) and business combinations (fair value) are very different and that ideally the models should be aligned before this Issue is resolved. Some Task Force members expressed an interest in a broader FASB project to address these two topics but acknowledged that the Board currently has other projects on its agenda that are considered more pressing. Accordingly, the Task Force is expected to drop this Issue from its agenda.

NEXT STEPS:

No further deliberations by the Task Force are expected.

⁵ FASB Accounting Standards Codification Topic 450, *Contingencies*.

⁶ FASB Statement No. 5, *Accounting for Contingencies*.

⁷ FASB Accounting Standards Codification Subtopic 350-30, *Intangibles — Goodwill and Other: General Intangibles Other Than Goodwill*.

⁸ FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

⁹ FASB Accounting Standards Codification Subtopic 323-10, *Investments — Equity Method and Joint Ventures: Overall*.

¹⁰ EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations."

¹¹ FASB Accounting Standards Codification Topic 815, *Derivatives and Hedging*.

¹² FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

Issue 09-E

Accounting for Stock Dividends, Including Distributions to Shareholders With Components of Stock and Cash

STATUS: Final consensus.

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 may 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 entities should present the stock portion of a distribution as a stock dividend or as a stock issuance in the calculation of earnings per share (EPS). ASC 505-20-05-3¹³ (formerly paragraph 8 of ARB 43, Chapter 7B¹⁴) states that a stock dividend "takes nothing from the property of the corporation" and that "the proportional interest of each shareholder remains the same." Stock dividends are reflected in the computation of basic and diluted EPS retroactively for all periods presented, in accordance with ASC 260-10-55-12¹⁵ (formerly paragraph 54 of Statement 128¹⁶). In contrast, a stock issuance is reflected in the computation of basic and diluted EPS prospectively as of the date the number of shares to be distributed is known.

SUMMARY: The Task Force previously issued an exposure draft that would have required an entity account for the minimum stock portion of the distribution as a stock dividend. Therefore, the entity would have been required to retrospectively adjust all previously reported EPS amounts for the minimum stock portion. The Task Force also proposed 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.

At its November 2009 meeting, the Task Force changed its previous conclusion and reached a final consensus that requires the entity to account for the share portion of the distribution as a stock issuance. In other words, under this Issue, the entity will include the shares issued or issuable as part of a distribution in **basic** EPS prospectively. From the date the entity commits itself to pay a dividend that has components of cash and shares to the time the dividend is actually distributed, the entity needs to consider other GAAP in accounting for the commitment to distribute cash and shares as a liability and that commitment's impact on basic EPS, **diluted** EPS, or both. ASC 480-10-25-14¹⁷ (formerly paragraph 12 of Statement 150¹⁸) requires an entity to record a liability for any obligation that may be settled in a variable number of equity shares.

EFFECTIVE DATE

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

NEXT STEPS: FASB ratification is expected at the Board's December 2, 2009, meeting.

¹³ FASB Accounting Standards Codification Subtopic 505-20, *Equity: Stock Dividends and Stock Splits*.

¹⁴ Accounting Research Bulletin No. 43, Chapter 7B, "Stock Dividends and Stock Split-Ups."

¹⁵ FASB Accounting Standards Codification Subtopic 260-10, *Earnings per Share: Overall*.

¹⁶ FASB Statement No. 128, *Earnings per Share*.

¹⁷ FASB Accounting Standards Codification Subtopic 480-10, *Distinguishing Liabilities From Equity: Overall*.

¹⁸ FASB Statement No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*.

Issue 09-F Casino Base Jackpot Liabilities

STATUS: Consensus-for-exposure.

AFFECTS: Entities that operate as casinos and that are within the scope of ASC 924¹⁹ (formerly AICPA Audit and Accounting Guide, *Casinos*).

BACKGROUND: This Issue addresses diversity in practice in the accounting for base jackpots on gaming machines. For nonprogressive jackpots, payouts are fixed on the basis of a gaming machine's predetermined pay table and the base jackpot is a fixed payout amount shown on this table. For progressive jackpots, payouts increase in value as more customers play the machine(s) and the base jackpot is the reset amount after a jackpot is paid out (e.g., a progressive jackpot that is reset to \$100,000 after each jackpot is won). Progressive jackpots can sometimes be linked to multiple machines in the casino or at multiple locations via a network (the latter is referred to as a wide-area progressive jackpot).

ASC 924 is not clear on whether, if a casino entity can avoid payout of the base jackpot (e.g., upon removal of a gaming machine from the casino floor), the casino entity is required to accrue any amounts before the base jackpot is won. Entities that do not accrue base jackpots point to ASC 924-605-25-1,²⁰ which states that casino revenue is reported "on the accrual basis" and is defined as "the difference between gaming wins and losses, not the total amount wagered." Entities that accrue base jackpots point to ASC 924-605-25-2, which states that "base jackpots shall be charged to revenue ratably over the period of play expected to precede payout."

The difference between the progressive jackpot and the base jackpot is referred to as the "incremental amount." In many gaming jurisdictions, the casino entity is required to pay out the incremental amount even if it removes a progressive jackpot machine from the casino floor. For example, the incremental amount may be transferred to another gaming machine or included as part of a cash giveaway. Because of this obligation, casino entities generally accrue the incremental amount.

SUMMARY: At its November 2009 meeting, the Task Force reached a consensus-for-exposure that would preclude a casino entity from accruing base jackpots before they are won as long as the entity can avoid payout of the base jackpot (e.g., upon removal of the machine from the casino floor). Therefore, the Task Force will amend the guidance on recognizing base jackpots in ASC 924-605-25-2.

EFFECTIVE DATE

AND TRANSITION: This Issue would be effective for interim and annual reporting periods beginning on or after December 15, 2010, and would be applied prospectively. A cumulative catch-up adjustment would be recorded in retained earnings as of the beginning of the period in which this Issue is adopted.

NEXT STEPS: FASB ratification is expected at the Board's December 2, 2009, meeting, after which the consensus-for-exposure will be exposed for a comment period.

Issue 09-G Clarification of the Definition of Deferred Acquisition Costs of Insurance Entities

STATUS: Consensus-for-exposure.

AFFECTS: Insurance entities that are within the scope of ASC 944²¹ (formerly Statement 60²²).

BACKGROUND: Insurance entities that apply the industry-specific guidance in ASC 944-30 defer and subsequently amortize certain acquisition costs incurred during the acquisition of new or renewal contracts. Such costs are commonly referred to as deferred acquisition costs (DAC). This Issue addresses the current diversity in the types of costs entities include in DAC.

ASC 944-30-20 defines acquisition costs as follows:

Costs incurred in the acquisition of new and renewal insurance contracts. Acquisition costs include those costs that **vary with and are primarily related** to the acquisition of insurance contracts.
[Emphasis added]

¹⁹ FASB Accounting Standards Codification Subtopic 924, *Entertainment — Casinos*.

²⁰ FASB Accounting Standards Codification Subtopic 924, *Entertainment — Casinos: Revenue Recognition*.

²¹ FASB Accounting Standards Codification Topic 944, *Financial Services — Insurance*.

²² FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*.

While ASC 944-30 gives several examples of costs that would meet the definition of acquisition costs, the definition itself is very broad and has led to diversity in practice. The examples in ASC 944-30 are agent and broker commissions, salaries of certain employees involved in the underwriting and policy issuance functions, and medical and inspection fees.

SUMMARY:

At its November 2009 meeting, the Task Force reached a consensus-for-exposure that would limit the costs an entity can include in DAC to those that are “directly related to” the acquisition of new and renewal insurance contracts. The Task Force also clarified that direct costs only include those that result in a successful acquisition of a policy and exclude all costs incurred for unsuccessful efforts. In addition, the Task Force noted that the principle for capitalizing costs under this Issue would be similar to the principle for capitalizing loan origination fees under ASC 310-20²³ (formerly Statement 91²⁴). For example, the portion of an underwriter’s salary that is allocated to unsuccessful contract acquisitions should be **excluded** from DAC. The consensus-for-exposure also would require that an entity include only actual costs, not costs expected to be incurred, in DAC.

The appendix of the EITF Issue Summary gives the following examples of costs entities should include in DAC:

- Commissions paid to selling agents, agents who write the business, and brokers.
- Bonuses paid to agents or brokers that vary with production.
- Policy preparation costs (assembly and mailing of new policy material).
- Portion of selling agent and underwriter salaries, benefits, and occupancy costs allocated to successful contract acquisitions.
- Portion of secretarial assistance and clerical support to underwriting staff allocated to successful contract acquisitions.
- Systems costs directly linked to underwriting.

In addition, costs incurred for direct-response advertising may be capitalized if they meet the criteria in ASC 340-20²⁵ (formerly SOP 93-7²⁶).

We would expect these proposed changes to affect a significant number of insurance entities. Affected entities would be required to disclose the impact that the adoption of this Issue has on their financial statements, in accordance with ASC 250-10-50²⁷ (formerly Statement 154²⁸).

EFFECTIVE DATE

AND TRANSITION: This Issue would be effective for interim and annual reporting periods beginning on or after December 15, 2010, and would be applied prospectively; however, the Issue would provide an option for retrospective application. Early application would be permitted.

NEXT STEPS: FASB ratification is expected at the Board’s December 2, 2009, meeting, after which the consensus-for-exposure will be exposed for a comment period.

Issue 09-I Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset

STATUS: Consensus-for-exposure.

AFFECTS: Entities that modify a loan that is currently accounted for under ASC 310-30²⁹ (formerly SOP 03-3³⁰) as part of a pool of loans that, when acquired, had deteriorated in credit quality.

BACKGROUND: ASC 310-30 provides guidance on certain acquired loans (1) that are acquired at a discount that is attributable, at least in part, to deterioration in the loans’ credit quality since origination, and (2) for which it is probable that all contractually required payments will not be collected. In addition, ASC 310-30 allows

²³ FASB Accounting Standards Codification Subtopic 310-20, *Receivables: Nonrefundable Fees and Other Costs*.

²⁴ FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated With Originating or Acquiring Loans and Initial Direct Costs of Leases*.

²⁵ FASB Accounting Standards Codification Subtopic 340-20, *Other Assets and Deferred Costs: Capitalized Advertising Costs*.

²⁶ AICPA Statement of Position 93-7, *Reporting on Advertising Costs*.

²⁷ FASB Accounting Standards Codification Subtopic 250-10, *Accounting Changes and Error Corrections: Overall*.

²⁸ FASB Statement No. 154, *Accounting Changes and Error Corrections*.

²⁹ FASB Accounting Standards Codification Subtopic 310-30, *Receivables: Loans and Debt Securities Acquired With Deteriorated Credit Quality*.

³⁰ AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*.

an entity to group two or more acquired loans (other than debt securities) with common risk characteristics into a pool and account for the pool as a single asset. ASC 310-30-40-1 requires that loans within the pool remain in place unless “the investor sells, forecloses, or otherwise receives assets in satisfaction of the loan, or the loan is written off.”

ASC 310-40³¹ (formerly Statement 15³²) provides creditors with guidance on determining whether a loan modification should be considered a troubled debt restructuring. ASC 310-40 defines a troubled debt restructuring as follows:

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

At issue are the following:

- If an entity “grants a concession to the debtor that it would not otherwise consider” and that loan is part of a pool accounted for under ASC 310-30, whether the entity should remove that loan from the pool and account for the modification as a troubled debt restructuring.
- If a modified loan is removed from a pool, how the carrying amount of that loan should be determined (i.e., on the basis of the effective rate of the pool or of the individual loan).

SUMMARY:

At its November 2009 meeting, the Task Force reached a consensus-for-exposure that a modification to a loan that is part of a pool accounted for under ASC 310-30 should not result in removal of the loan from the pool. Such modifications would include those that would otherwise qualify as a troubled debt restructuring had the loan not been part of a pool. The basis for this is the guidance in ASC 310-30 specifying that the unit of accounting is the pool of loans and that the integrity of the pool should be maintained.

The Task Force considered but did not reach a conclusion about whether entities should disclose additional information about modifications to loans that are part of pools, including loans in which the creditor is providing concessions to the debtor. Instead, the Board agreed to consider such disclosures as part of its ongoing [project](#) on credit quality and the allowance for credit loss disclosures.

EFFECTIVE DATE

AND TRANSITION: This Issue would be effective for the first interim or annual reporting period beginning after issuance, and would be applied prospectively. Early application would be permitted as long as the entity has not issued financial statements in that fiscal year.

NEXT STEPS: FASB ratification is expected at the Board’s December 2, 2009, meeting, after which the consensus-for-exposure will be exposed for a comment period.

Issue 09-J Impact of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Primarily Trades

STATUS: Consensus-for-exposure.

AFFECTS: Entities that issue share-based payment awards with exercise prices in currencies that are different from the entity’s functional currency and the payroll currency of the employees.

BACKGROUND: This Issue addresses whether an entity should classify a share-based payment award as equity or a liability if the award’s exercise price is denominated in the currency in which the underlying security trades and that currency is different from the (1) entity’s functional currency, (2) functional currency of the foreign operation for which the employee provides services, and (3) payroll currency of the employee.

ASC 718-10³³ (formerly Statement 123(R)³⁴) requires an entity to classify awards that are indexed to factors other than market, performance, or service conditions as liabilities. Although foreign-currency risk would not be considered a market, performance, or service condition, ASC 718-10-25-4 provides an exception to liability classification if the exercise price of the award is in the currency of the entity’s foreign operation or the payroll currency of the employee (provided that the award meets all other equity criteria in

³¹ FASB Accounting Standards Codification Subtopic 310-40, *Receivables: Troubled Debt Restructurings by Creditors*.

³² FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*.

³³ FASB Accounting Standards Codification Subtopic 718-10, *Compensation — Stock Compensation: Overall*.

³⁴ FASB Statement No. 123(R), *Share-Based Payment*.

ASC 718-10). Some constituents have questioned whether this exception should be extended to awards that are within the scope of this Issue.

SUMMARY:

At its November 2009 meeting, the Task Force reached a consensus-for-exposure that would create an additional exception to liability classification under ASC 718-10. That exception applies to share-based payments with exercise prices denominated in currencies of the market in which “substantial portions” of the entity’s equity securities trade. Note that the Issue Summary proposed to limit this exception to markets in which the underlying equity securities “primarily” trade (i.e., a single market), but the Task Force expanded the scope exception from the primary market to markets in which a substantial portion of the underlying equity trades. The consensus-for-exposure also clarifies that the nature and terms of such awards would need to be disclosed.

EFFECTIVE DATE

AND TRANSITION: This Issue would be effective for interim and annual periods beginning on or after December 15, 2010, and would be applied prospectively. Affected entities would be required to record a cumulative catch-up adjustment for all awards outstanding as of the beginning of the annual period in which this Issue is adopted.

NEXT STEPS:

FASB ratification is expected at the Board’s December 2, 2009, meeting, after which the consensus-for-exposure will be exposed for a comment period.

Administrative Matters

Update on Issue 08-9, “Milestone Method of Revenue Recognition” — The Task Force formed a working group to provide additional insights and recommendations, and will discuss this Issue at a future meeting.

Update on Issue 09-B, “Consideration of an Insurer’s Accounting for Majority-Owned Investments When the Ownership Is Through a Separate Account” — The Task Force received several comment letters about this Issue after its September 2009 meeting, and the FASB staff is currently preparing an issue supplement for a future EITF meeting.

Update on Issue 09-D, “Application of the AICPA Audit and Accounting Guide, *Investment Companies, by Real Estate Investment Companies*” — The Task Force formed a working group to provide additional insights and recommendations, and will discuss this Issue at a future meeting.

Issue 09-H, “Accounting by Healthcare Organizations (Presentation of Insurance Claims and Related Insurance Recoveries; Revenue Recognition; and Measuring Charity Care for Disclosure)” — The Task Force added this Issue to its agenda in October 2009, and will discuss it at a future meeting.

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