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EITF Snapshot.

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This *EITF Snapshot* summarizes the March 15, 2012, 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 Board's ratification at a future 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 11-A Parent's Accounting for the Cumulative Translation Adjustment (CTA) Upon the Sale or Transfer of a Group of Assets That Is a Nonprofit Activity or a Business Within a Consolidated Foreign Entity

Status: No consensus reached.

Affects: Entities that cease to have a controlling financial interest in a group of assets that is a nonprofit activity or a business within a consolidated foreign entity.

Background: If the functional currency of a foreign entity is different from its parent's reporting currency, a cumulative translation adjustment (CTA) for the foreign entity would be recorded in accumulated other comprehensive income in the parent's consolidated financial statements. A group of net assets residing in a foreign entity that is a nonprofit activity or that meets the definition of a business in ASC 805[1] may be sold or transferred, but because these assets are only a portion of the net assets of the foreign entity, they do not represent a substantially complete liquidation of the entity. There is diversity in practice regarding whether to recycle into earnings a portion of the CTA (from accumulated other comprehensive income into earnings) upon the sale or transfer of a group of net assets that is a nonprofit activity or that meets the definition of a business under ASC 805 when the transfer does not represent a complete or substantially complete liquidation of the entity.

Some entities apply the decrease-in-ownership provisions in ASC 810-10, as amended by ASU 2010-02.[2] Under these provisions, when a parent loses control of a subsidiary,[3] the carrying amount of the former subsidiary's net assets is derecognized, including any equity components, and a gain or loss is reflected in earnings.[4] Thus, if the group of assets that is a nonprofit activity or that meets the definition of a business is sold, the parent would apply the provisions of ASC 810-10 and recognize in earnings a portion of the CTA that is attributable to the group of net assets. The decrease-in-ownership provisions in ASC 810-10 do not apply to sales of in-substance real estate or to the conveyance of oil and gas mineral rights even if they are considered businesses.

Other entities apply the guidance in ASC 830, under which any accumulated foreign currency translation adjustment related to the foreign entity is released into earnings only upon the sale or complete or substantially complete liquidation of the investment in the foreign entity. Thus, if the group of net assets that is a nonprofit activity or that meets the definition of a business is sold, the CTA would only be released into earnings if the group of net assets represents substantially all of the investment in the foreign entity.

[1] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

[2] FASB Accounting Standards Update No. 2010-02, *Accounting and Reporting for Decreases in Ownership of a Subsidiary — a Scope Clarification*.

[3] Or in this case, a group of assets represents a business that has been sold.

[4] See ASC 810-10-45-5.

This Issue was added to the EITF's agenda to address this diversity in practice in the accounting for the CTA when a group of assets that is a nonprofit activity or that meets the definition of a business has been sold or transferred.

Summary: At its November 2011 meeting, the Task Force reached a consensus-for-exposure that a parent would apply the guidance in ASC 810-10 when it sells or transfers, from a foreign entity, a group of net assets that is a nonprofit activity or that meets the definition of a business (other than a sale of in-substance real estate or a conveyance of oil and gas mineral rights). That is, upon the sale, a portion of the CTA associated with the disposed group of net assets would be recognized in earnings (i.e., recycled from OCI). The recognition of a portion of the CTA does not depend on a distribution of the proceeds to the parent. If the group of assets is not a nonprofit activity or does not meet the definition of a business, or the sale is of in-substance real estate or a conveyance of oil and gas mineral rights, the parent would apply ASC 830-30 (i.e., the CTA would not be recycled unless the event represents a complete or substantially complete liquidation of the foreign entity).

The Task Force also reached a consensus-for-exposure that if a parent has hedged part (or all) of its net investment in the foreign entity in which the group of assets had resided, the parent should release into earnings the related amount of accumulated gain or loss on the net investment hedge attributable to the nonprofit activity or business.

The EITF also decided not to provide specific guidance on measuring the CTA allocation but indicated that such allocations should be on a systematic and rational basis. The Task Force did not recommend that any new disclosure requirements be added as a result of this Issue.

At its March 2012 meeting, the Task Force considered comments received on the exposure draft and, on the basis of these comments and its redeliberations, directed the FASB staff to perform additional research and targeted outreach. Specifically, the Task Force wants to further consider (1) the scope of this Issue and whether it should exclude in-substance real estate and the conveyance of oil and gas mineral rights; (2) the interaction of the guidance on the CTA release into earnings with hedge accounting guidance; (3) the interaction of the guidance with the impairment guidance in ASC 830-30-45-13 through 45-15; and (4) other potential operational complexities associated with applying ASC 810-10 to the CTA release into earnings.

Effective Date and Transition: The Task Force previously decided that this Issue would be applied prospectively. Early adoption would be permitted. The Task Force will redeliberate transition and the effective date at a future meeting.

Next Steps: The FASB staff will perform additional outreach and bring back this Issue for further deliberation at a future meeting.

Issue 12-A Not-for-Profit Entities: Classification of Gifts of Securities in the Statement of Cash Flows

Status: Consensus-for-exposure.

Affects: Not-for-profit entities (NFPs) that receive donated securities that (1) have a ready market (and can therefore be readily converted to cash) and (2) are directed to be sold upon receipt.

Background: NFPs receive donations in many forms, including various types of equity and debt securities. Many NFPs have policies requiring that donated securities be sold shortly after being received from the donor.

Some NFPs believe that the subsequent sale of donated securities that have a ready market and that are directed to be sold upon receipt should be classified as an operating activity in the statement of cash flows. These NFPs analogize to ASC 230-10-45-20, which indicates that "assets that are acquired specifically for resale and are carried at market value in a trading account" are operating cash flows.

Other NFPs believe that the subsequent sale of donated securities that have a ready market and that are directed to be sold upon receipt should be classified as investing activities in the statement of cash flows. The donation of the security may be a noncash investing activity that the entity would be required to disclose, and the subsequent sale would be presented as an investing cash inflow in the statement of cash flows. These NFPs analogize to ASC 230-10-45-11, which indicates that purchases, **sales,** and maturities of available-for-sale securities are presented as investing activities in the statement of cash flows because the trading category is not available to NFPs.[5]

[5] ASC 958-320 does not include the three investment categories described in ASC 320. Although ASC 958-320 gives NFPs the option to "report in a manner similar to business entities," the "trading" category is not mentioned as part of this option.

This Issue addresses how an NFP should classify, in the statement of cash flows, the sale of donated securities that have a ready market (and can therefore be readily converted into cash) and that are directed to be sold upon receipt. The Task Force was asked whether such transactions should be classified as investing activities or operating activities in the statement of cash flows. This Issue would not change the requirement to present the activity as a financing activity if the donor restricted the funds from the sale such that they could only be used for the acquisition, construction, or improvement of long-lived assets or for establishing or increasing a permanent or term endowment.

Summary: At its March 2012 meeting, the Task Force reached a consensus-for-exposure that an NFP should classify the sale of donated securities that have a ready market (and can therefore be readily converted into cash) and that are directed to be sold upon receipt as operating activities in the statement of cash flows. The Task Force also asked the FASB staff to seek additional input on whether this Issue should apply to donations of illiquid securities or donations of nonfinancial assets for which the entity has required the item to be sold upon receipt.

Effective Date and Transition: This Issue would be applied prospectively; however, an entity could elect to apply the guidance retrospectively to all prior periods. The Task Force will discuss the effective date of the Issue at a future meeting. Early application would be permitted.

Next Steps: FASB ratification is expected at a future Board meeting, after which the consensus-for-exposure will be exposed for comment.

Issue 12-B Not-for-Profit Entities: Services Received From Employees of an Affiliate

Status: No consensus-for-exposure reached (tentative decision made).

Affects: NFPs that receive personnel services from an affiliate under common control and for which the affiliate does not seek reimbursement.

Background: Groups of affiliated NFPs under common control often share resources to achieve various common objectives. In these affiliated arrangements, an NFP may receive services from employees of an affiliated NFP. The services may range from those requiring specialized skills (e.g., those of an architect, doctor, accountant, or lawyer) to those that do not (e.g., more administrative functions). The services may or may not be under the direction of the donee (i.e., the affiliated NFP).

ASC 958-605 indicates that contributed services "shall be recognized if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee and the recognition criteria for contributed services are met." The recognition of contributed services is limited to those that (1) create or enhance a nonfinancial asset or (2) require specialized skills that the NFP would otherwise need to purchase. If these criteria are met, the contributed services are recognized and measured at fair value in the receiving NFP's financial statements. If these criteria are not met, it is unclear, under U.S. GAAP, whether the services received should be recognized and, if so, how they should be measured. In practice, receiving NFPs have either (1) only recognized services that meet the criteria or (2) recognized all of the services that are paid for by an affiliate.

This Issue addresses how an NFP should recognize and measure the receipt of services from an affiliate under common control (when the affiliate does not seek reimbursement for these services) in its stand-alone financial statements. The Task Force was asked whether the NFP should:

1. Only recognize services that meet the criteria in ASC 958-605, as amended by this Issue (in which case, more administrative services would not be recognized). Note that this Issue would amend ASC 958-605-25-17 to remove the requirement that the services be "performed under the direction of the recipient" but would retain the other criteria in that paragraph.
2. Disregard the guidance on contributed services in ASC 958-605 and instead recognize **all personnel services that are regularly performed** (including administrative services) for the recipient NFP and measure them at the actual cost incurred by the affiliate. A variation on this alternative would be to measure the services that meet the guidance on contributed services in ASC 958-605 at fair value and those that do not at actual cost.

Summary: At its March 2012 meeting, the Task Force tentatively decided that the expenses related to all personnel services that are regularly performed for the recipient NFP should be recognized in the NFP's stand-alone financial statements and measured at the actual costs incurred by the affiliate under common control.[6] The Task Force asked the FASB staff to gather additional information about (1) the presentation of the offsetting entry for the contributed personnel services (i.e., as contribution revenue or separately from contribution revenue as an equity transfer[7]) and (2) whether the scope should be limited to only contributed services or whether contributed assets should be recognized and measured[8] in a similar manner.

Effective Date and Transition: The Task Force will discuss the transition and effective date of this Issue at a future meeting.

Next Steps: The FASB staff will perform additional outreach and bring back this Issue for further deliberation at a future meeting.

Issue 12-C Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Lending Institution

Status: Consensus-for-exposure.

Affects: Entities that recognize, as part of a business combination, an indemnification asset that the government provides as part of a government-assisted acquisition of a lending institution. Examples of such acquisitions include bank acquisitions assisted by the Federal Deposit Insurance Corporation (FDIC) and acquisitions assisted by the National Credit Union Association (NCUA) for which the FDIC or NCUA enters into a loss-sharing agreement (LSA) with the acquiring bank. This Issue does not apply to situations in which the indemnified asset is subsequently measured at fair value.[9]

Background: Under ASC 805, when a seller indemnifies the acquirer against a particular contingency or uncertainty related to a specific liability or asset acquired in a business combination, the acquirer must record an indemnification asset at the same time as it recognizes the indemnified item. The indemnification asset is initially measured on the same basis as the indemnified item (with a valuation allowance for amounts deemed uncollectible) and is subsequently measured **on the same basis** as the indemnified item, subject to any **contractual limitations** on the asset's amount (including an assessment of its collectibility when it is not measured at fair value).

Views differ on how an entity should interpret the terms "on the same basis" and "contractual limitations" when subsequently measuring the indemnification asset. Specifically, these terms are interpreted differently when the performance of the indemnified asset has improved and the indemnification asset's expected performance has therefore deteriorated. For example, when acquired, indemnified loans subsequently may be expected to perform better than originally expected and the acquirer thus may now expect to receive less of a settlement amount (or no settlement amount) under the indemnification agreement.

Consider an example in which Acquirer A purchases a pool of loans with a remaining term of 15 years as part of an FDIC-assisted bank acquisition (which meets the definition of a business). At acquisition, the acquired loans had a par value of $2 million and a fair value of $1 million (because of deteriorations in credit quality). In addition, the FDIC entered into an LSA with Acquirer A to reimburse 80 percent of certain losses on covered loans for the next five years. At acquisition, the fair value of the indemnification asset provided by the FDIC was assumed to be $400,000. After the acquisition date, the expected cash flows on the acquired loans increase by $250,000 (which is accreted into income over the life of the loans).[10] As a result, the expected cash flows from the indemnification asset decrease by an assumed amount of $150,000.

In this circumstance, most entities either (1) amortize the deterioration in the indemnification asset over the remaining term of the LSA, taking into account its contractual limitations, or (2) impair the indemnification asset and recognize the impairment charge (i.e., the entire decrease in expected cash flows) immediately in earnings.

[6] The tentative decision would supersede the reference to "separately governed affiliated entities" in ASC 958-605-25-17 and clarify that the contributed services from employees of an affiliated NFP under common control should be recognized in the stand-alone financial statements of the recipient NFP.

[7] ASC 958-20 provides guidance on when a transfer of assets to a recipient entity is an equity transaction.

[8] ASC 958-605 states that contributed assets (e.g., property, utilities, and advertising) should be recognized at fair value as both revenue and expense in the period in which these assets are received and used.

[9] See ASC 805-20-35-4.

[10] See ASC 310-30-35-2.

This Issue addresses how to subsequently measure the indemnification asset in the circumstance described above.[11] Specifically, the Task Force has been asked whether, in the circumstance described above, the indemnification asset should be measured on the same basis as the underlying loans by using (1) the loan's contractual limitations such as its term, (2) the contractual limitations of the LSA (i.e., the term of the LSA), or (3) the loan's contractual limitations, but derecognizing any remaining indemnification asset upon expiration of the LSA. A fourth alternative would be to record an impairment charge immediately in earnings that is equal to the entire decrease in expected cash flows from the indemnification asset.

Summary: At its March 2012 meeting, the Task Force reached a consensus-for-exposure that the indemnification asset should be subsequently measured on the same basis as the underlying loans by using the contractual limitations of the LSA (i.e., the term of the LSA). In our example above, this would result in amortization of the indemnification asset for the $150,000 decrease in the expected cash flows evenly over the remaining term of the LSA.

Effective Date and Transition: This Issue would be applied prospectively to both new transactions and existing transactions in which an outstanding indemnification asset is measured. The Task Force will discuss the effective date of this Issue at a future meeting. Early application would be permitted.

Next Steps: FASB ratification is expected at a future Board meeting, after which the consensus-for-exposure will be exposed for comment.

Issue 12-D Accounting for Joint and Several Liability for Which the Total Amount of the Obligation at the Reporting Date Is Fixed

Status: No consensus-for-exposure reached (tentative decision made).

Affects: Entities that are jointly and severally liable with other entities, when the total amount of the obligation is fixed as of the reporting date. However, this Issue does not apply to obligations that are accounted for under certain Codification topics.[12]

Background: An entity is considered jointly and severally liable if the total amount of the obligation may be enforceable against any party to the arrangement. An example would be a lending arrangement in which multiple parties (obligors) participate in the financing and each obligor is joint and severally liable for repayment of the total indebtedness. Another example would be a situation in which multiple parties are joint and severally liable for settled litigation.

Some entities recognize the total obligation when they are jointly and severally liable. For example, if two entities are jointly and severally liable for $100 million in borrowings (assume that each entity had received only $50 million in proceeds), each entity would record a $100 million liability for the borrowing. Other entities would record something less than the total obligation, such as an allocated portion of the total joint-and-several obligation based on proceeds received or some other systematic and rational basis. In this example, that might be $50 million because each of the two entities received that amount and agreed that this amount is its respective obligation.

This Issue addresses how a reporting entity should account for a joint-and-several obligation whose total amount is fixed as of the reporting date. Specifically, the Task Force was asked whether each obligor that is joint and severally liable should (1) recognize the total obligation, (2) account for the total obligation as a guarantee that is within the scope of ASC 460, or (3) account for the total obligation as a contingent liability that is within the scope of ASC 450-20.

Summary: At its March 2012 meeting, the Task Force reached a tentative decision that this Issue should be limited to related parties, including parties under common control. Each reporting entity that is jointly and severally liable should account for the obligation as a guarantee under ASC 460. The Task Force noted that guarantees between parents and their subsidiaries and entities under common control are outside the scope of ASC 460's requirements related to initial recognition and measurement. Accordingly, these entities would not be required to initially recognize and measure any stand-ready obligation for a joint-and-several obligation but would recognize a liability for the amount that they expect to pay (and would be subject to ASC 460's requirements for subsequent-measurement and disclosure). For related entities that

[11] This Issue does not address the accounting for the option time value component that is included in the initial fair value measurement of the indemnification asset. Rather, this Issue addresses the accounting for the changes in the intrinsic value of the indemnification asset (i.e., the changes in expected cash flows from the indemnification asset as a result of changes in the performance of the loans).

[12] This Issue does not apply to obligations accounted for under FASB ASC Topics 410, *Asset Retirement Obligations*; 450, *Contingencies*; 460, *Guarantees;* 715, *Compensation — Retirement Benefits*; or 740, *Income Taxes.*

are not under common control, each entity would recognize a liability for the amount it expects to pay and an amount for the stand-ready obligation associated with the amount that related parties are expected to pay.

In conjunction with its tentative decision, the Task Force directed the FASB staff to perform additional research and seek feedback on (1) whether the scope of this Issue should be limited to related parties, including parties under common control, or should be expanded to include unrelated parties; (2) whether recognition and measurement exceptions to this Issue should be considered for nonpublic entities; and (3) the recognition and measurement of any stand-ready obligation, including the effect of any potential recoveries from other obligors under the joint-and-several obligation.

Effective Date and Transition: The Task Force will discuss the transition and effective date of this Issue at a future meeting.

Next Steps: The FASB staff will perform additional outreach and bring back this Issue for further deliberation at a future meeting.

Issue 12-E Accounting for Fair Value Information That Arises Subsequent to the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs

Status: Consensus-for-exposure.

Affects: Entities that produce and distribute films.

Background: Costs to produce a theatrical film are capitalized and subsequently amortized into income. Unamortized film costs are then tested for impairment when facts and circumstances indicate that the fair value of a film is less than its unamortized cost. Impairment indicators may include an adverse change in the expected performance of a film before its theatrical release or a film's actual performance that fails to meet expectations. If an impairment indicator is identified, an impairment charge would be recognized for any excess of the unamortized cost over the fair value of the film.

A film may be released after the balance sheet date but before the financial statements are issued or are available to be issued. During this time, an impairment indicator may be identified (e.g., box office results from the opening weekend were less than anticipated). Under ASC 926-20-35-18, there is a rebuttable presumption that conditions leading to an impairment charge existed as of the balance sheet date. If the rebuttable presumption is not overcome, the entity would recognize the impairment charge as of the balance sheet date (e.g., fair value would reflect events such as the actual opening weekend results). In contrast, the fair value guidance in ASC 820 requires that only information that is known or knowable as of the measurement date (i.e., the balance sheet date) should be incorporated into a fair value measurement. Events such as the actual opening weekend results are not considered in the fair value measurement because they typically represent the resolution of uncertainty that would already be factored into the fair value measurement as of the balance sheet date.

This Issue addresses whether an entity, when performing an impairment test of unamortized film costs, should consider information after the balance sheet date in measuring the fair value as of the balance sheet date. Specifically, the Task Force was asked whether ASC 926-20-35-18 should be superseded, in which case only information that is known or knowable as of the measurement date would be incorporated into the fair value measurement of the film.

Summary: At its March 2012 meeting, the Task Force reached a consensus-for-exposure that the guidance in ASC 926-20-35-18 should be superseded, including the rebuttable presumption that the conditions leading to the write-off of unamortized film costs existed as of the balance sheet date. Thus, only information that is known or knowable as of the measurement date would be incorporated into the fair value measurement. The Task Force directed the FASB staff to consider including a separate question in the proposed ASU that would ask whether the impairment-triggering events in ASC 926 should be reconsidered or clarified given the elimination of the rebuttable presumption in ASC 926-20-35-18.

Effective Date and Transition: This Issue would be applied prospectively to impairment tests performed after the date of adoption; early adoption would be permitted. In addition, early adoption would be permitted for impairment tests if the entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The Task Force will discuss the effective date of this Issue at a future meeting.

Next Steps: FASB ratification is expected at a future Board meeting, after which the consensus-for-exposure will be exposed for comment.

Administrative Matters

The EITF's next regularly scheduled meeting is June 21, 2012, with a supplemental meeting scheduled for May 17, 2012, if needed. The date on which the FASB will consider ratification of the EITF's consensus-for-exposure documents has not been set but is expected to be announced in the near future.

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