



Board Meeting Handout*
Ratification of EITF Consensuses and Consensus-for-Exposure¹
December 12, 2007

At today's meeting, the staff will request that the Board consider ratifying the consensuses and consensuses-for-exposure that were reached at the November 29, 2007 EITF meeting.

Task Force Consensuses:

1. Issue No. 07-1, "Accounting for Collaborative Arrangements"—The Task Force affirmed as a consensus the consensus-for-exposure on Issue 1 that a collaborative arrangement is a contractual arrangement in which the parties are active participants to the arrangement and are exposed to significant risks and rewards that are dependent on the ultimate commercial success of the endeavor. An entity should evaluate all relevant facts and circumstances when evaluating whether an arrangement is a collaborative arrangement.

The Task Force affirmed as a consensus the consensus-for-exposure on Issue 2 that transactions with third parties (that is, revenue generated and costs incurred by participants in a collaborative arrangement) should be reported gross or net on the appropriate line item in each entity's respective financial statements pursuant to the guidance in EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." In reaching that consensus, the Task Force also concluded that the equity method of accounting under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, should not be applied to arrangements that are conducted by the participants without the creation of a separate legal entity for the arrangement.

The Task Force affirmed as a consensus the consensus-for-exposure on Issue 3 that the income statement classification of payments between participants pursuant to a collaborative arrangement should be evaluated based on the nature of the arrangement, the nature of each entity's business operations, and the contractual terms of the arrangement.

Task Force members observed that participants to a collaborative arrangement need to evaluate other authoritative accounting literature regarding recognition, measurement, and classification of the transactions being considered. The determination of whether a collaborative arrangement is subject to other accounting literature that addresses income statement classification for payments in a vendor-customer relationship should be based on the facts and circumstances of the arrangement.

The Task Force affirmed as a consensus the consensus-for-exposure on Issue 4 that a participant in a collaborative arrangement should disclose annually:

* **The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.**

¹ Consensuses-for-exposure refers to a conclusion reached by the Task Force on an Issue indicating that the Issue has been approved for release as an exposure draft subject to Board ratification.

- a. Information about the nature and purpose of its collaborative arrangements
- b. Its rights and obligations under the collaborative arrangements
- c. The accounting policy for collaborative arrangements in accordance with APB Opinion No. 22, *Disclosure of Accounting Policies*
- d. The income statement classification and amounts attributable to transactions arising from the collaborative arrangement between participants for each period an income statement is presented.

In addition, the Task Force decided to remove the following two disclosures: the stage of the underlying endeavor's life cycle and the amounts due from or owed to other participants under the collaborative arrangements. The Task Force observed that the disclosure requirements in the consensus apply to the entire collaborative arrangement, including any portion conducted through a legal entity.

The Task Force reached a consensus that this Issue should be effective for fiscal years beginning after December 15, 2008, which is a change from its consensus-for-exposure reached at the September 11, 2007 EITF meeting on the effective date of this Issue. Entities should report the effects of applying this Issue as a change in accounting principle through retrospective application to all periods presented for all arrangements existing at the effective date. If it is impracticable to apply the effects of a change in accounting principle retrospectively, an entity should disclose both the reasons why reclassification was not made and the effect of the reclassification on the current period pursuant to the guidelines in paragraph 9 of FASB Statement No. 154, *Accounting Changes and Error Corrections*. The entity should evaluate whether transition through retrospective application is practicable on an arrangement-by-arrangement basis.

2. **Issue No. 07-6, "Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, *Accounting for Sales of Real Estate, When the Agreement Includes a Buy-Sell Clause*"**—The Task Force affirmed as a consensus the consensus-for-exposure that the buy-sell clause should be evaluated based on facts and circumstances to determine whether the clause constitutes an option or other form of prohibited continuing involvement. In addition, the Task Force decided to remove the example factors from paragraph 8 of the draft abstract.

Additionally, the Task Force reached a consensus that this Issue should be effective for new arrangements entered into and assessments of existing transactions originally accounted for under the deposit, profit-sharing, leasing, or financing methods for reasons other than the existence of a buy-sell clause, performed in fiscal years beginning after December 15, 2007, and in interim periods within those fiscal years. Earlier application is not permitted.

Task Force Consensuses-for-Exposure:

1. **Issue No. 07-4, "Application of the Two-Class Method under FASB Statement No. 128, *Earnings per Share, to Master Limited Partnerships*"**—The Task Force decided to change its consensus-for-exposure reached at the September 11, 2007 EITF meeting on how to allocate current-period earnings to the GP, LPs, and IDR holder when current-period

earnings exceed cash distributions. The Task Force reached a consensus-for-exposure that when current-period earnings are in excess of cash distributions and the IDRs are a separate LP interest, undistributed earnings should be allocated to the GP, LPs, and IDR holder utilizing the contractual terms of the partnership agreement. The distribution waterfall (that is, a schedule that prescribes distributions to the various interest holders at each threshold) for available cash specified in the partnership agreement is how the MLP determines the way in which earnings are distributed for the period presented. The undistributed earnings shall be allocated to the IDR holder based on the contractual participation rights of the IDR to share in current period earnings. Therefore, if the partnership agreement includes a "specified threshold" as described in Example F in paragraph 16 of EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128," an MLP shall not allocate undistributed earnings to the IDR holder once the specified threshold has been met. In determining whether a specified threshold exists, an MLP should evaluate whether distributions to the IDR holder would be contractually limited to available cash as defined in the partnership agreement. If distributions to the IDR holder would be contractually limited to available cash as defined in the partnership agreement, then the MLP would not allocate undistributed earnings to the IDR holder.

Similarly, when the IDR is embedded in the GP interest, undistributed earnings should be allocated to the GP (including the distribution rights of the embedded IDR) and LPs utilizing the distribution formula for available cash specified in the partnership agreement. The undistributed earnings shall be allocated to the GP (with respect to the distribution rights of an embedded IDR) based on the contractual participation rights of the IDR to share in current period earnings. Therefore, if the partnership agreement includes a "specified threshold" as described in Example F in paragraph 16 of Issue 03-6, an MLP shall not allocate undistributed earnings to the GP (with respect to the distribution rights of an embedded IDR) once the specified threshold has been met. In determining whether a specified threshold exists, an MLP should evaluate whether distributions to the GP (with respect to the distribution rights of an embedded IDR) would be contractually limited to available cash as defined in the partnership agreement. If distributions to the GP (with respect to the distribution rights of an embedded IDR) would be contractually limited to available cash as defined in the partnership agreement, then the MLP would not allocate undistributed earnings to the IDR holder.. The excess of distributions over earnings shall be allocated to the GP and LPs based on their respective sharing of losses specified in the partnership agreement.

Additionally, the Task Force decided to change its consensus-for-exposure reached at the September 11, 2007 EITF meeting on the effective date of this Issue. The Task Force reached a consensus-for-exposure that this Issue should be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The guidance in this Issue should be applied retrospectively for all financial statements presented.