Interpretation of the Emerging Accounting Issues Working Group

INT 99-10: EITF 97-8: Accounting for Contingent Consideration Issued in a Purchase Business Combination

ISSUE NULLIFIED BY SSAP NO. 68

INT 99-10 Dates Discussed

March 8, 1999; June 7, 1999

INT 99-10 References

SSAP No. 68—Business Combinations and Goodwill (SSAP No. 68)

INT 99-10 Issue

1. EITF 97-8, *Accounting for Contingent Consideration Issued in a Purchase Business Combination* (EITF 97-8) provides that a contingent security or separate financial instrument should be recorded by the issuer at fair value at the date of acquisition (as part of the cost of the business acquired).

2. For statutory purposes, SSAP No. 68 requires the acquiring reporting entity to record its investment at cost where cost includes the fair value of all assets distributed. However, the determination of the fair value of the assets is not specifically addressed within this SSAP, but it is presumed that the fair value would be based upon the requirements of the applicable SSAP that addresses the specific asset, including derivatives, as discussed in *SSAP No. 86— Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions*. Additionally, SSAP No. 68 defines the difference between the cost of acquiring the entity and the reporting entity's share of the book value as goodwill.

INT 99-10 Discussion

3. The working group reached a consensus that EITF 97-8 should be adopted to provide that contingent consideration issued in a purchase business combination that is embedded in a security or that is in the form of a separate financial instrument be recorded by the issuer at fair value at the acquisition date.

INT 99-10 Status

4. No further discussion is planned.