Statement of Financial Accounting Standards No. 145

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FAS145 Summary

Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections

April 2002

Financial Accounting Standards Board
of the Financial Accounting Foundation
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Statement of Financial Accounting Standards No. 145

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FAS 145: Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections

FAS 145 Summary

This Statement rescinds FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt,* and an amendment of that Statement, FASB Statement No. 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements*. This Statement also rescinds FASB Statement No. 44, *Accounting for Intangible Assets of Motor Carriers.* This Statement amends FASB Statement No. 13, *Accounting for Leases,* to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions.

Reasons for Issuing This Statement

When Statement 4 was issued in 1975, the Board noted that the provisions of that Statement represented a "practical and reasonable solution to the question regarding income statement classification of gains or losses from extinguishment of debt until such time as the broader issues involved can be addressed" (paragraph 15). Since the issuance of Statement 4, the use of debt extinguishment has become part of the risk management strategy of many companies, particularly those operating in the secondary lending market. Debt extinguishments used as part of an entity's risk management strategy represent one example of debt extinguishments that do not meet the criteria for classification as extraordinary items in APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* and therefore, should not be classified as extraordinary. Statement 64 amended Statement 4 and is no longer necessary because Statement 4 has been rescinded.

Statement 44 was issued to establish accounting requirements for the effects of transition to the provisions of the Motor Carrier Act of 1980 (Public Law 96-296, 96th Congress, July 1, 1980). Those transitions are completed; therefore, Statement 44 is no longer necessary.

This Statement also amends Statement 13 to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also makes various technical corrections to existing pronouncements. Those corrections are not substantive in nature.

How the Changes in This Statement Improve Financial Reporting

Under Statement 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. This Statement eliminates Statement 4 and, thus, the exception to applying Opinion 30 to all gains and losses related to extinguishments of debt (other than extinguishments of debt to satisfy sinking-fund requirements—the exception to application of Statement 4 noted in Statement 64). As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Opinion 30. Applying the provisions of Opinion 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. Under Statement 13, the required accounting treatment of certain lease modifications that have economic effects similar to sale-leaseback transactions was inconsistent with the required accounting treatment for sale-leaseback transactions. This Statement amends paragraph 14(a) of Statement 13 to require that those lease modifications be accounted for in the same manner as sale-leaseback transactions. This amendment is in accordance with the Board's goal of requiring similar accounting treatment for transactions that have similar economic effects.

INTRODUCTION

Statements 4 and 64

1. FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt,* was issued in 1975. Statement 4 required that gains and losses from extinguishment of debt that were included in the determination of net income be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Statement 4 also required certain disclosures for those items. At the time Statement 4 was issued, the Board concluded that classifying gains and losses from extinguishment of debt as extraordinary items represented a practical and reasonable solution to the issues regarding income statement classification of those gains or losses. However, the Board indicated that that solution was not intended to be permanent.

2. FASB Statement No. 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements,* was issued in 1982. That Statement made an exception to the provisions of Statement 4 for certain debt extinguishment transactions.

Statement 44

3. FASB Statement No. 44, *Accounting for Intangible Assets of Motor Carriers,* was issued to establish accounting requirements for the effects of transition to the provisions of the Motor Carrier Act of 1980 (Public Law 96-296, 96th Congress, July 1, 1980). Statement 44 also contained a provision that in the event that intrastate operating rights were to be deregulated, the accounting requirements for the effects of transition to those laws would be in accordance with the provisions of Statement 44. All intrastate operating rights have since been deregulated, and the transition to the provisions of those laws is complete.

Amendment of Statement 13

4. Paragraph 14(a) of FASB Statement No. 13, *Accounting for Leases,* describes the accounting by a lessee for certain lease modifications. If a capital lease is modified in such a way that the change in the lease provisions gives rise to a new agreement classified as an operating lease, paragraph 14(a) requires that the asset and obligation under the lease be removed, a gain or loss be recognized for the difference, and the new lease agreement thereafter be accounted for as any other operating lease. Several constituents advised the Board that, in their view, if a capital lease is modified as described above, the modification has economic effects that are similar to a sale-leaseback transaction. However, Statement 13 does not require the lessee to account for those lease modifications as sale-leaseback transactions. This Statement requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for under the sale-leaseback provisions of FASB Statement No. 98, *Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate; Sales-Type Leases of Real Estate; Definition of the Lease Term; Initial Direct Costs of Direct Financing Leases,* or paragraphs 2 and 3 of FASB Statement No. 28, *Accounting for Sales with Leasebacks,* as applicable.

Technical Corrections

5. Before the Board issues a pronouncement that contains amendments to existing pronouncements, those amendments are reviewed by the Board. This Statement identifies amendments that should have been made to previously existing pronouncements and formally amends the appropriate pronouncements. In addition, this Statement amends existing authoritative pronouncements to (a) correct references to guidance issued by the American Institute of Certified Public Accountants (AICPA) or the FASB that has been revised or superseded since the issuance of the pronouncement and (b) eliminate inconsistencies in existing pronouncements.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Rescission of Statements 4, 44, and 64

6. This Statement rescinds the following pronouncements:

a. FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt*
b. FASB Statement No. 44, *Accounting for Intangible Assets of Motor Carriers*
c. FASB Statement No. 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements.*

Amendments to Existing Pronouncements to Reflect Rescission of Statements 4, 44, and 64

7. This Statement amends the following pronouncements to reflect the rescission of Statements 4, 44, and 64:

a. APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.* In the last sentence of paragraph 20, as amended by FASB Statement No. 141, *Business Combinations,* the phrase *(1) Classifications of gains or losses from extinguishment of debt pursuant to paragraph 8 of FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt* is deleted.

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

(1) In paragraphs 13, 15, and 17, *(see paragraph 21)* is deleted.
(2) Paragraph 21 is deleted.
(3) In paragraph 25(b), *and the related income tax effect (paragraph 21)* is deleted.
(4) In paragraph 25(d), *, net of related income tax effect* is deleted.

c. FASB Statement No. 22, *Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt.*

(1) The last sentence of paragraph 12(a)(i) is deleted.
(2) In the last sentence of the example of lessee accounting in paragraph 17, *(The loss shall be classified in accordance with FASB Statement No. 4.)* is deleted.

d. FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

(1) In the last sentence of paragraph 5, the following is deleted:

- FASB Statement No. 44, *Accounting for Intangible Assets of Motor Carriers*

(2) In the table in paragraph D1, the reference to Statement 44 is deleted.

e. FASB Technical Bulletin No. 80-1, *Early Extinguishment of Debt through Exchange for Common or Preferred Stock.* The third sentence of paragraph 4 is deleted.

Amendment of Statement 13

8. FASB Statement No. 13, *Accounting for Leases*. The last sentence of paragraph 14(a) is replaced by the following:

> If the change in the lease provisions gives rise to a new agreement classified as an operating lease, the transaction shall be accounted for under the sale-leaseback requirements of FASB Statement No. 98, *Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate; Sales-Type Leases of Real Estate; Definition of the Lease Term; Initial Direct Costs of Direct Financing Leases,* or paragraphs 2 and 3 of FASB Statement No. 28, *Accounting for Sales with Leasebacks,* as applicable.

Technical Corrections

9. This Statement amends the following pronouncements to make technical corrections to existing authoritative pronouncements:

a. APB Opinion No. 28, *Interim Financial Reporting*. In the fourth sentence of paragraph 21, as amended by FASB Statement No. 141, *Business Combinations,* the phrase *in a purchase* is deleted.

b. APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.* In the fourth sentence of paragraph 26, *or in any manner inconsistent with the provisions of paragraphs 8 and 11 of this Opinion* is deleted.

c. FASB Statement No. 13, *Accounting for Leases.* Paragraph 38 is replaced by the following:

> If the nature of the transaction is such that the original lessee is relieved of the primary obligation under the original lease, as would be the case in transactions of the type described in paragraphs 35(b) and 35(c), the termination of the original lease agreement shall be accounted for as follows:
>
> a. If the original lease was a capital lease of property other than real estate (including integral equipment), the asset and obligation representing the original lease shall be

removed from the accounts, a gain or loss shall be recognized for the difference, and, if the original lessee is secondarily liable, the guarantee obligation shall be recognized in accordance with paragraph 114 of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Any consideration paid or received upon termination shall be included in the determination of gain or loss to be recognized.

b. If the original lease was a capital lease of real estate (including integral equipment), the determination as to whether the asset held under the capital lease and the related obligation may be removed from the balance sheet shall be made in accordance with the requirements of FASB Statement No. 66, *Accounting for Sales of Real Estate*. If the criteria for recognition of a sale in Statement 66 are met, the asset and obligation representing the original lease shall be removed from the accounts and any consideration paid or received upon termination and any guarantee obligation shall be recognized in accordance with the requirements above for property other than real estate. If the transaction results in a gain, that gain may be recognized if the criteria in Statement 66 for recognition of profit by the full accrual method are met. Otherwise, the gain shall be recognized in accordance with one of the other profit recognition methods discussed in Statement 66. Any loss on the transaction shall be recognized immediately.
c. If the original lease was an operating lease and the original lessee is secondarily liable, the guarantee obligation shall be recognized in accordance with paragraph 114 of Statement 140.

d. FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. Paragraph 44, as amended by FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* is replaced by the following:

In the following types of conveyances, gain or loss shall not be recognized at the time of the conveyance, except as otherwise provided:

a. A transfer of assets used in oil and gas producing activities (including either proved or unproved properties) in exchange for other assets also used in oil and gas producing activities. However, when proved properties are transferred in exchange for other assets also used in oil and gas producing activities, if an impairment loss is indicated under the provisions of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* it shall be recognized in accordance with paragraph 29 of Statement 144.
b. A pooling of assets in a joint undertaking intended to find, develop, or produce oil or gas from a particular property or group of properties.

e. FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises.* Paragraph 12 is deleted.

f. FASB Statement No. 95, *Statement of Cash Flows.*

(1) In the last sentence of paragraph 15, as amended by FASB Statement No. 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale,* the phrase *, and securities that are classified as trading securities as discussed in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* is added after *Statement 102.*

(2) The parenthetical comment in paragraphs 16(a) and 17(a), as amended by Statement 102, is replaced by the following:

(other than cash equivalents, certain debt instruments that are acquired specifically for resale as discussed in Statement 102, and securities classified as trading securities as discussed in Statement 115)

(3) The parenthetical comment in paragraphs 16(b) and 17(b), as amended by Statement 102, is replaced by the following:

(other than certain equity instruments carried in a trading account as described in Statement 102 and certain securities classified as trading securities as discussed in Statement 115)

(4) In footnote 5, the following parenthetical comment is added after *debt or equity instruments*:

(other than cash equivalents, certain debt instruments that are acquired specifically for resale as discussed in Statement 102, and securities classified as trading securities as discussed in Statement 115)

(5) In the footnote after *goods* in paragraphs 22(a) and 23(a), added by Statement 102, *, and securities that are classified as trading securities as discussed in Statement 115* is added after *Statement 102*.

g. FASB Statement No. 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale.* Paragraph 8 is amended as follows:

(1) The following sentence is added after the first sentence:

Cash receipts and cash payments resulting from purchases and sales of securities classified as trading securities as discussed in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* shall be classified as operating cash flows.

(2) In the second sentence, *other* is added before *securities*.

h. FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* In footnote 4 to paragraph 16, as amended by FASB Statement No. 135, *Rescission of FASB Statement No. 75 and Technical Corrections,* the phrase *AICPA Statement on Auditing Standards No. 81, Auditing Investments*, is replaced by *AICPA Statement on Auditing Standards No. 92, Auditing Derivative Instruments, Hedging Activities, and Investments in Securities.*

i. FASB Statement No. 128, *Earnings per Share*. In the first sentence of the definition of *contingent stock agreement* in paragraph 171, *accounted for by the purchase method* is deleted.

j. FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In the second sentence of paragraph 59(e), *Statement 125* is replaced by *Statement 140*.

k. FASB Statement No. 135, *Rescission of FASB Statement No. 75 and Technical Corrections*. Paragraphs 4(p)(1), 4(p)(7), and 4(r)(2)(a) are deleted

l. FASB Statement No. 141, *Business Combinations.*

(1) In the first sentence of paragraph 46, *prior to the pro rata allocation required by paragraph 44* is added after *excess*.
(2) In the first sentence of footnote 25, *cost of the* is added before *acquired*.
(3) Paragraph E10 is deleted.

m. FASB Statement No. 142, *Goodwill and Other Intangible Assets.*
(1) In paragraph 8(i), *(paragraph 7)* is deleted.
(2) The following is added to the end of paragraph 8:

m. FASB Interpretation No. 9, *Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method.*

(3) The second and third sentences of paragraph 35 are replaced by the following:

An entity would determine the fair value of the acquired business (or portion thereof) to be included in a reporting unit—in essence a "purchase price" for that business. The entity would then allocate that purchase price to the individual assets acquired and liabilities assumed related to that acquired business (or portion thereof).[21] Any excess purchase price is the amount of goodwill assigned to that reporting unit.

(4) Paragraph D11(a)(2) is deleted.

n. FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

(1) In the first sentence of paragraph 5, *that are to be held and used* is added after *amortized.*
(2) In the first sentence of paragraph 45, *for a long-lived asset (disposal group) classified as held for sale* is replaced by *on the sale of a long-lived asset (disposal group).*
(3) Under the column "Existing Requirement Paragraph Number" in the section of the table in paragraph D1 relating to FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies,* the numbers *31(b), 33* are replaced by *31, 33, 34*.

o. FASB Interpretation No. 21, *Accounting for Leases in a Business Combination*. In the heading before paragraph 15, ***Purchase*** is replaced by ***Business***.

p. FASB Technical Bulletin No. 80-1, *Early Extinguishment of Debt through Exchange for Common or Preferred Stock.* In the first sentence of paragraph 3, *Statement 15 or Opinion 26* is replaced by *Statement 15, as amended by FASB Statement No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections; Opinion 26; or APB Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.*

q. FASB Technical Bulletin No. 82-1, *Disclosure of the Sale or Purchase of Tax Benefits through Tax Leases.* In the first sentence of paragraph 6, *, as amended by FASB Statement No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections,* is added after *Opinion 30.*

Effective Date and Transition

10. The provisions of this Statement related to the rescission of Statement 4 shall be applied in fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in Opinion 30 for classification as an extraordinary item shall be reclassified. Early application of the provisions of this Statement related to the rescission of Statement 4 is encouraged.

11. The provisions in paragraphs 8 and 9(c) of this Statement related to Statement 13 shall be effective for transactions occurring after May 15, 2002, with early application encouraged. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002, with early application encouraged.

12. Early application of the provisions of this Statement may be as of the beginning of the

fiscal year or as of the beginning of the interim period in which this Statement is issued.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Edmund L. Jenkins, *Chairman*
G. Michael Crooch
John M. Foster
Gary S. Schieneman
Katherine A. Schipper
Edward W. Trott
John K. Wulff

Appendix: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

A1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

A2. In August 2001, in response to constituent requests, the Board undertook a project to rescind Statement 4. As part of that project, the Board decided to take the opportunity to make various technical corrections to other pronouncements. In November 2001, the Board issued the Exposure Draft, *Rescission of FASB Statements No. 4, 44, and 64 and Technical Corrections*. The Board received 30 letters in response to that Exposure Draft.

A3. In redeliberating the proposed technical corrections of the 2001 Exposure Draft, the Board considered additional amendments and technical corrections suggested by various respondents to the Exposure Draft. The Board decided to include one substantive amendment of Statement 13 and several technical corrections that were suggested by respondents and FASB staff members. In February 2002, the Board issued a limited revised Exposure Draft, *Rescission of FASB Statements No. 4, 44, and 64 and Technical Corrections—Amendment of FASB Statement No. 13,* that proposed that the substantive amendment to Statement 13 be included in this Statement. The Board received 10 letters in response to the 2002 Exposure Draft. The Board concluded that on the basis of existing information it could make an informed decision on the matters addressed in this Statement without a public hearing.

Rescission of Statements 4 and 64

A4. The Board noted that at the time Statement 4 was issued, its requirement to classify all gains and losses associated with extinguishment of debt as extraordinary items was intended to be a temporary measure and that application of the criteria in Opinion 30 would seldom, if ever, require that resulting gains and losses be classified as extraordinary items. The Board noted that Statement 4 dictated the classification of gains and losses from extinguishment of debt and, thus, did not permit a conceptual consideration under the provisions of Opinion 30 of whether an extinguishment of debt is extraordinary in nature. The Board concurred that debt extinguishments are often routine, recurring transactions and concluded that classifying the associated gains and losses as extraordinary items in all cases is inconsistent with the criteria in Opinion 30. Furthermore, such classification may not provide the most useful information to users of financial statements.

A5. The Board observed that the rescission of Statement 4 would not preclude gains and losses from extinguishment of debt that meet the criteria in Opinion 30 from being classified as extraordinary items. The Board noted that Opinion 30 requires disclosures about material gains and losses associated with debt extinguishments that are unusual or infrequent in nature. Thus, applying the provisions of Opinion 30 would distinguish transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as extraordinary items. The Board concluded that the rescission of Statement 4 would improve financial reporting by eliminating a requirement to classify a normal and important part of many entities' ongoing activities to manage interest rate risk as an extraordinary item.

A6. Some respondents to the 2001 Exposure Draft suggested that the Statement should prohibit classification of gains and losses associated with the extinguishment of debt as extraordinary items. The Board concurred with the observation made at the time Statement 4 was issued that application of the criteria of Opinion 30 to debt extinguishment transactions would seldom, if ever, result in extraordinary item classification of the resulting gains and losses. However, the Board noted that *prohibiting* extraordinary item classification of gains and losses associated with the extinguishment of debt also would not permit a conceptual consideration under the provisions of Opinion 30 of whether an extinguishment of debt is extraordinary in nature. Thus, the Board decided not to prohibit extraordinary item classification of gains and losses related to the extinguishment of debt.

A7. Some respondents suggested that the Board reconsider the criteria in Opinion 30 for extraordinary item classification. Those respondents noted that the recent consensus reached on EITF Issue No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001," raises questions about the appropriateness of those criteria and of the need for extraordinary item classification in general. The Board decided that reconsideration of the extraordinary item classification criteria is beyond the scope of this project. However, the Board is considering matters of financial statement display in its performance reporting project.

A8. Statement 64 amended Statement 4 to require that gains and losses from extinguishments of debt made to satisfy future sinking-fund requirements meet the criteria in paragraph 20 of Opinion 30 in order to qualify for extraordinary item classification. Because Statement 4 is rescinded, Statement 64 is no longer necessary.

Rescission of Statement 44

A9. The Board noted that Statement 44 was issued to establish accounting requirements for the effects of transition to the provisions of the Motor Carrier Act of 1980. The Board concluded that Statement 44 is no longer needed because transition to the provisions of the Motor Carrier Act of 1980 is complete.

Amendment of Statement 13

A10. Several respondents to the 2001 Exposure Draft suggested that Statement 13 be amended to eliminate an inconsistency between the accounting by lessees for certain lease modification transactions that would require reclassification of a capital lease as an operating lease and the accounting for sale-leaseback transactions required by Statement 28 or 98. The Board concluded that the former transactions have economic effects that are similar to sale-leaseback transactions and that it would be appropriate to amend paragraph 14(a) of Statement 13 to eliminate that inconsistency. However, the Board concluded that that particular amendment is not a technical correction because it is substantive in nature. Because a substantive amendment must be subjected to the Board's due process, the Board decided to issue a limited revised Exposure Draft that would amend paragraph 14(a) of Statement 13.

A11. Most respondents to the 2002 Exposure Draft agreed with the Board's conclusions and the provisions of the proposed Statement. No respondents raised compelling arguments opposing the provisions of the 2002 Exposure Draft; therefore, the Board decided to include its provisions in this Statement.

Technical Corrections

A12. At the time a pronouncement is developed, the Board's due process procedures require determination of the effect of the new standard on existing authoritative accounting pronouncements. The existing authoritative pronouncements should be amended for any such effects thereby eliminating doubt as to what is amended and eliminating conflicts between the requirements of prior pronouncements and the requirements of the new pronouncement. When changes that should have been made as a result of that process are subsequently discovered, those changes are made to the various editions of the FASB's *Current Text,* and those editorial corrections are appropriately indicated in its *Original Pronouncements*. The Board decided to formalize those technical corrections by amending the appropriate pronouncements.

A13. A technical correction is a nonsubstantive amendment to an authoritative pronouncement. The Board concluded that an amendment is not substantive if there is evidence in existing authoritative pronouncements that at the time the pronouncement was issued, the issue addressed by the technical correction had been considered by the Board and the Board had reached a conclusion on the issue. A technical correction reflects the Board's intent on decisions that were previously subjected to the Board's due process but that were overlooked or were not clearly stated at the time a pronouncement was issued. The Board observed that some technical corrections may change current practice.

A14. In November 1992, when the Board first issued a standard to make technical corrections (FASB Statement No. 111, *Rescission of FASB Statement No. 32 and Technical Corrections*), the Board considered what parts of previously issued pronouncements to amend and decided that only the official guidance sections should be amended. The Board continues to believe that only those sections should be amended. In other words, the Board believes that the introduction, background information, and basis for conclusions paragraphs provide historical information that should not be amended or superseded unless the entire pronouncement is superseded. Those paragraphs are considered historical because they document the circumstances surrounding the development of a pronouncement. For example, they record (a) the reasons why the accounting requirements were considered to be necessary at that time, (b) the alternative guidance considered, and (c) public comments on the proposed requirements and how those comments were addressed.

A15. In addition to the accounting guidance and historical paragraphs, a pronouncement sometimes contains other paragraphs or appendixes that (a) state the scope of the pronouncement, (b) indicate substantive amendments to other existing pronouncements, (c) present examples or illustrations of application of the requirements of the pronouncement, or (d) present a glossary of the terms used in the pronouncement. The Board believes that the content of those various paragraphs and appendixes provides part of the accounting guidance of the pronouncement and should be amended if the pronouncement is amended by a subsequent pronouncement.

A16. Most respondents to the 2001 Exposure Draft agreed that the proposed technical corrections represent nonsubstantive amendments to existing authoritative pronouncements. Several respondents suggested additional technical corrections. The Board considered those suggestions and decided to include in this Statement those that met the criteria established for a technical correction.

Effective Date and Transition

A17. The Board noted that the rescission of Statement 4 represents a change in practice relating to the classification of gains and losses from extinguishment of debt. The 2001 Exposure Draft proposed that the provisions of the Statement related to the rescission of Statement 4 be applied as of the beginning of the fiscal year in which the Statement is issued. The Board reasoned that if the provisions of this Statement related to the rescission of Statement 4 were required to be applied from the beginning of an entity's fiscal year, the financial statements for that year would present the debt extinguishment transactions in that year consistently. Further, the Board noted that it would not be onerous for preparers to determine whether debt extinguishments completed prior to the issuance of this Statement meet the criteria for extraordinary item classification.

A18. Several respondents to the 2001 Exposure Draft commented that the requirement to apply those provisions retroactively to the beginning of the fiscal year could have a negative effect on certain debt covenants. The Board considered those comments and decided to require that entities apply the provisions of this Statement related to the rescission of Statement 4 in fiscal years beginning after the Statement is issued. However, the Board decided to encourage early application of those provisions. In addition, the Board decided to require reclassification of the gains and losses related to debt extinguishments that do not meet the criteria in Opinion 30 for extraordinary item treatment for all prior periods presented in comparative financial statements.

A19. The Board decided that the provisions in paragraphs 8 and 9(c) of this Statement that amend Statement 13 should be applied for transactions entered into after issuance of this Statement, with early application encouraged.

A20. The amendments to make technical corrections to existing pronouncements represent codification of items the Board intended to include within accounting pronouncements that are already in effect. The 2001 Exposure Draft proposed that the provisions of this Statement not related to Statement 4 should be effective upon issuance of the Statement. Respondents asked for clarification of whether those provisions should be effective for financial statements issued after the Statement is issued or for transactions occurring after issuance of the final Statement. The Board decided that, except for the provisions discussed in paragraphs A18 and A19, all provisions of this Statement should be effective for financial statements issued after this Statement is issued, with early application encouraged.

Benefits and Costs

A21. The Board's mission statement charges the Board to determine that a proposed standard will fill a significant need and that the costs it imposes will be justified in relation to the overall benefits. The rescission of Statements 4 and 64 eliminates an exception to general practice relating to how to determine whether certain items should be classified as extraordinary. The criteria for extraordinary item classification are outlined in paragraph 20 of Opinion 30, and entities have been successfully applying those criteria for almost 30 years. The Board believes that the benefits of consistent application of the criteria for extraordinary item classification outweigh any effort required on the part of preparers to apply the criteria of Opinion 30 to debt extinguishment transactions. The rescission of Statement 44 removes a no longer relevant standard from the authoritative literature.

A22. The amendment of Statement 13 affects the accounting by the lessee for certain lease modifications that have economic effects similar to sale-leaseback transactions. The Board believes that that amendment improves financial accounting because similar transactions should be accounted for in a similar manner. Further, the Board believes that applying sale-leaseback accounting to the lease modifications addressed in this Statement would not be costly.

A23. The Board believes that financial reporting is both simplified and improved by eliminating the inconsistent and obsolete reporting requirements of Statements 4, 44, and 64 and by incorporating the amendments and technical corrections in this Statement.