



National Accounting

Alert

FASB Proposes Elimination of Extraordinary Classification Requirement for Debt Extinguishment

December 13, 2001

On November 15, 2001, the Financial Accounting Standards Board (FASB) issued an Exposure Draft of a proposal that rescinds FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt*. The rescission of Statement 4 would eliminate the **requirement** that all gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. However, a company could continue to classify transactions as extraordinary items if they meet the criteria in paragraph 20 of APB 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*. Paragraph 20 of APB 30 requires that the event or transaction be both unusual in nature and infrequent in occurrence.

Because real estate companies frequently and routinely extinguish debt, this proposal would, in most cases, eliminate the ability to report these transactions as extraordinary items

unless they meet the criteria in APB 30. Since the gains and losses from debt extinguishments would be included in continuing operations under generally accepted accounting principles, they would be included in the calculation of Funds From Operations (FFO).

The FASB has proposed that Statement 4 be rescinded because subsequent to Statement 4 being issued in 1975, the use of debt extinguishment has become part of the interest risk-management strategy of many companies. The rescission would be applicable as of the beginning of the fiscal year in which the new standard is issued (expected in 2002). However, financial statements issued prior to the fiscal year of adoption would not have to be restated to reflect any reclassification.

The comment letter deadline is January 14, 2002. NAREIT plans to submit a comment letter supporting the proposal, but suggesting that it be effective on a prospective basis, after the issuance of a final standard.

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