

National Accounting

Alert

FASB Affirms Decision to Eliminate Extraordinary Classification Requirement for Debt Extinguishment; Revises Transition

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On February 7, 2002, the Financial Accounting Standards Board (FASB) affirmed its decision to rescind FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt*. The rescission of Statement 4 eliminates 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.

At the same time, the FASB reached a consensus that the effective date of the guidance would be fiscal years beginning after the issuance of the statement. Issuance of the standard is expected in May 2002, providing for a 2003 effective date for calendar-year companies. The revised transition provisions are consistent with

NAREIT's request in its industry comment letter. The original proposal would have made the rescission applicable as of the beginning of the fiscal year in which the new standard is issued.

As part of the transition guidance, gains and losses from debt extinguishments in prior periods presented in financial statements must be reclassified (to continuing operations) if they do not meet the criteria in APB 30.

Because real estate companies frequently and routinely extinguish debt, this proposal would, in most cases, eliminate the ability to classify and report these transactions as an extraordinary item under generally accepted accounting principles (GAAP) unless they meet the criteria in APB 30. Since the gains and losses from debt extinguishments would be included in continuing operations under GAAP, they would be included in the calculation of Funds From Operations (FFO).

If you have any questions, contact George Yungmann at 202-739-9432 or gyungman@nareit.com, or David Taube at 202-739-9442 or dtaube@nareit.com.

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