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August 19, 2010

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the July 29, 2010 meeting of the FASB Emerging Issues Task Force and an inventory of open issues for the next EITF meeting. Also included is a confidential version of the minutes that has been marked for changes from the August 11, 2010 Fatal Flaw draft. After your review, please discard the confidential marked version of the minutes.

Also included are versions of the proposed Accounting Standards Updates and final Accounting Standards Updates that have been marked for changes from the August 11, 2010 Fatal Flaw drafts. After your review, please discard the confidential marked versions of these documents. The proposed Update for Issue 10-C was issued on August 18, 2010. We expect the proposed Updates for Issues 10-D and 10-F to be issued by August 27, 2010. The final Updates will be issued as soon as practicable depending on the finalization of other Board documents currently in our production department.

The next EITF meeting will be held on **September 16, 2010,** at the FASB offices in Norwalk, Connecticut.

Please call me at 203.956.3468 if you have any questions.

Sincerely,
Kevin W. Brower
Practice Fellow
kwbrower@fasb.org

0710FN

Emerging Issues Task Force
Meeting Minutes
July 29, 2010

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[1] This Issue originated as a sub-issue of EITF Issue No. 09-K, "Health Care Entities: Presentation of Insurance Claims and Related Insurance Recoveries."

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MINUTES OF THE JULY 29, 2010 MEETING OF THE FASB EMERGING ISSUES TASK FORCE

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, July 29, 2010
Starting Time: 8:00 a.m.
Concluding Time: 4:30 p.m.

Task Force Members Present:
Russell G. Golden (Chairman)
Mark M. Bielstein
Mitchell A. Danaher
James G. Campbell
Jay D. Hanson[1]
Stuart H. Harden
Jan R. Hauser
Carl Kampel
Mark LaMonte
Carlo D. Pippolo
Matthew L. Schroeder
R. Harold Schroeder
Ashwinpaul C. (Tony) Sondhi
Robert Uhl
Lawrence E. Weinstock
Paul A. Beswick (SEC Observer)

Task Force Members Absent:
None

[1] Mr. Hanson also served as the AICPA's Financial Reporting Executive Committee (formerly named AcSEC) Observer.

Others at Meeting Table:
Robert H. Herz, FASB Board Member
Leslie F. Seidman, FASB Board Member
Larry W. Smith, FASB Board Member
Marc A. Siegel, FASB Board Member
Thomas J. Linsmeier, FASB Board Member
Shelly C. Luisi, SEC Senior Associate Chief Accountant
Chad I. Bonn, FASB Practice Fellow
Kevin W. Brower, FASB Practice Fellow
* Bob Bhave, FASB Project Manager
* Sriprasadh Cadambi, FASB Practice Fellow
* Benjamin Couch, FASB Practice Fellow
* Trevor Farber, FASB Practice Fellow
* Michael T. Gonzales, FASB Associate Practice Fellow
* Trent Handy, FASB Practice Fellow
* William D. Hildebrand, FASB Practice Fellow
* Jeffery D. Mechanick, FASB Assistant Director
* Adrian E. Mills, FASB Practice Fellow
* Robert Worshek, FASB Practice Fellow
* Kim Yang, FASB Industry Fellow

* For certain issues only.

ADMINISTRATIVE MATTERS

- An FASB staff member announced that the FASB chairman made the following EITF agenda decisions regarding issues discussed at the May 7, 2010 Agenda Committee meeting:
  - Issues added to the EITF agenda:
    - EITF Issue No. 10-C, "Reporting Loans to Participants by Defined Contribution Pension Plans"
    - EITF Issue No. 10-D, "Accounting for Certain Fees Associated with Recently Enacted Health Care Legislation"
    - EITF Issue No. 10-E, "Debtor's Accounting for Real Estate Subject to a Nonrecourse Mortgage in Default Prior to Forfeiture."

- During the Task Force discussion of EITF Issue No. 09-K, "Health Care Entities: Presentation of Insurance Claims and Related Insurance Recoveries," the Task Force agreed to separate the issue of whether a health care entity should have a policy election on accounting for legal costs from Issue 09-K into a separate Issue. The FASB chairman did not object to the addition of EITF Issue No. 10-F, "Accounting for Legal Costs Associated with Medical Malpractice Claims," to the EITF agenda. Refer to discussion of Issue 10-F elsewhere in these minutes.

- An FASB staff member announced that the Working Group on EITF Issue No. 09-G, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts," met on May 13, 2010, and that the Working Groups on Issues No. 09-H, "Health Care Entities: Revenue Recognition," and No. 10-A, "How the Carrying Amount of a Reporting Unit Should Be Calculated When Performing Step 1 of the Goodwill Impairment Test," met separately on May 10, 2010. Working Group Reports were prepared following each meeting and distributed to Task Force members. Refer to discussion of each of those Issues elsewhere in these minutes.

- An FASB staff member announced that any consensuses-for-exposure reached at this meeting will be considered by the Board for ratification and exposure for public comment at the Board meeting on Wednesday, August 18, 2010 (with one exception[1]). Any consensuses-for-exposure reached at prior meetings that are affirmed as consensuses at this meeting will also be considered by the Board for ratification at the Board meeting on Wednesday, August 18, 2010.

- September 2010 EITF meeting. An FASB staff member announced that the next EITF meeting is expected to be held on September 16, 2010.

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[1] At the July 29, 2010 EITF meeting, the Board ratified the consensus-for-exposure on EITF Issue No. 10-C, "Reporting Participant Loans in Employee Benefit Plan Financial Statements."

- 2011 EITF Meeting Dates. An FASB staff member announced the following EITF meeting dates for 2011:
    - **Regular Meeting Dates**
      March 24, 2011
      June 23, 2011
      September 8, 2011
      November 3, 2011
    - **Extra Dates if Needed**
      January 13, 2011
      May 12, 2011
      July 28, 2011
      October 13, 2011

DISCUSSION OF AGENDA TECHNICAL ISSUES

Issue No. 09-G

Title: Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

Dates Discussed: November 19, 2009; March 18, 2010; July 29, 2010

Introduction

1. Insurance entities often incur costs that meet the definition of acquisition costs included in Topic 944. The Glossary of Subtopic 944-30 defines acquisition costs as:

> Costs incurred in the acquisition of new and renewal insurance contracts. Acquisition costs include those costs that vary with and are primarily related to the acquisition of insurance contracts.

2. The implementation guidance in paragraph 944-30-55-1 provides the following three examples of acquisition costs that "vary with and are primarily related to" insurance contracts issued or renewed during the period in which those costs are incurred:

   a. Agent and broker commissions
   b. Salaries of certain employees involved in the underwriting and policy issue functions
   c. Medical and inspection fees.

3. Costs incurred by insurance entities that meet the definition of acquisition costs in Topic 944 are recognized as assets and are commonly referred to as deferred acquisition costs, or DAC. DAC assets are amortized over time using methods of amortization dependent upon the nature of the underlying insurance product (that is, proportional to revenues, based on a contract's estimated gross profit, or based on a contract's estimated gross margin). Other costs, such as those relating to investments, general administration, and policy maintenance that do not vary with and are not primarily related to the acquisition of new and renewal insurance contracts are charged to expense as incurred.

4. The accounting policies for DAC of insurance entities have varied in practice. That diversity can be partially attributed to interpretations of the phrase "vary with and are primarily related to" within the definition of acquisition costs. For example, some constituents believe that only costs that are both direct and incremental and that were incurred as a result of obtaining new or renewal contracts should be considered acquisition costs. Some constituents believe that only the costs incurred that are directly related to activities undertaken in the obtaining of new or renewal contracts should be considered acquisition costs. Others believe that only a causal relationship needs to exist for the costs to meet the criteria in the definition of acquisition costs.

5. As a result of the diversity in practice relating to the interpretation of what costs qualify as acquisition costs within the insurance industry, certain constituents initially raised the question of whether advertising costs meet the definition of acquisition costs. However, given that the

conceptual issue of how to interpret the phrase "vary with and are primarily related to" is broader and applies to more than advertising costs, this Issue is not limited to advertising costs.

Issue

6. The issue is what types of costs should be included in the definition of acquisition costs for the acquisition of new or renewal insurance contracts.

Scope

7. This Issue is applicable to insurance entities that are within the scope of Topic 944 (which, as stated in paragraph 944-10-15-2, includes but is not limited to stock life insurance entities, mutual life insurance entities, and property and liability insurance entities) that incur costs in the acquisition of new and renewal insurance contracts.

Prior EITF Discussion

8. At the November 19, 2009 EITF meeting, the Task Force reached a consensus-for-exposure on this Issue that acquisition costs should include only those costs that are directly related to the acquisition or renewal of insurance contracts by applying a model similar to the accounting for loan origination costs in Subtopic 310-20.

9. The Task Force also clarified that this definition would not include any costs related to unsuccessful contract acquisition efforts. Additionally, the Task Force agreed that advertising costs incurred by insurance entities should not be included in deferred acquisition costs but rather should follow the guidance for advertising costs in Topic 720 or Subtopic 340-20, as applicable. Accordingly, advertising costs incurred by insurance entities would only be capitalized if they qualify as capitalized advertising costs under Subtopic 340-20.

10. In discussing this Issue, some Task Force members indicated that they believe that only costs that are both direct and incremental and are incurred as a result of obtaining new or renewal contracts should be considered acquisition costs, while others preferred expensing all contract acquisition costs, which is similar to the Board's current view in its joint insurance project with the IASB. Other Task Force members favored aligning the nature of capitalizable costs in contract acquisition activities with those capitalizable costs of loan origination activities in Topic 310. That model encompasses both direct and incremental costs as well as certain additional direct costs incurred to complete successful contract acquisitions or renewals. Some Task Force members noted that the loan origination model does not permit capitalization of costs relating to unsuccessful loan efforts, which, if applied by insurance companies, would result in a significant change from current practice. Other Task Force members questioned the conceptual basis for how costs relating to unsuccessful contract acquisition efforts could be considered to provide a future economic benefit to warrant asset recognition.

11. The Task Force reached a consensus-for-exposure to revise the recurring disclosure requirements of paragraph 944-30-50-1 as follows (added text is <u>underlined</u>):

> Insurance entities shall disclose all of the following in their financial statements:
>
> a. The nature <u>and type</u> of **acquisition costs** capitalized

b. The method of amortizing capitalized acquisition costs
c. The amount of acquisition costs amortized for the period.

12. The Task Force also reached a consensus-for-exposure that this Issue shall be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. Early adoption would be permitted. The consensus requires prospective application upon the date of adoption. Retrospective application to all prior periods upon the date of adoption is also permitted, but not required.

13. The transition disclosures in paragraph 250-10-50-1 through 50-3 would be required.

14. At the December 2, 2009 meeting, the Board ratified the consensus-for-exposure reached by the Task Force in this Issue and approved the issuance of a proposed Accounting Standards Update (proposed Update) for public comment.

15. The proposed Update was posted to the FASB website on December 17, 2009, and requested comments on the proposed Update by February 12, 2010.

16. At the March 18, 2010 EITF meeting, the Task Force discussed the 20 comment letters received on the proposed Update. The Task Force affirmed as a consensus its consensus-for-exposure that acquisition costs should include only those costs that are directly related to the acquisition or renewal of insurance contracts by applying a model similar to the accounting for loan origination costs in Subtopic 310-20. The Task Force also affirmed as a consensus its consensus-for-exposure that costs related to unsuccessful contract efforts should be expensed as incurred. Task Force members discussed whether to modify the proposed model as it relates to the capitalization criteria or provide further clarification as to the types of costs eligible for capitalization, but decided not to revise the model at this time.

17. Task Force members discussed a comment received from a preparer who believes that the guidance in the proposed Update would require some property and casualty insurers to defer more costs under the revised model than what is currently being deferred in practice under the current model for DAC. Some Task Force members believe that if, as a result of the amendments in the proposed Update, entities are required to capitalize more costs than are being capitalized currently, those property and casualty insurers should not be required to capitalize the additional costs. Specifically, those Task Force members did not believe it would be beneficial for insurers to incur costs to develop new systems to capitalize additional acquisition costs, particularly if they may potentially be required to expense all acquisition costs in the future as is currently proposed by the tentative conclusion of the Board in its insurance contracts project. Other Task Force members favored one capitalization model for DAC being applicable to all insurance entities to increase comparability between entities. The Task Force tentatively decided that entities should not be required to capitalize additional costs as a result of applying this Issue.

18. The Task Force also affirmed as a consensus its consensus-for-exposure that advertising costs should only be capitalized if the criteria for capitalizing such costs pursuant to the direct-response advertising guidance in Topic 340 are met. The Task Force discussed how its decision to exclude capitalized direct response advertising costs from DAC affects the premium

deficiency calculation and the realizability assessment of the amounts of capitalized direct-response advertising. The Task Force requested that the staff perform additional analysis on the interaction of these impairment tests for discussion at a future meeting.

19. The Task Force also discussed concerns raised by respondents to the proposed Update relating to the costs and efforts involved in implementing the proposed model. Those respondents frequently cited system costs, particularly relating to allocating costs between successful efforts and unsuccessful efforts. The Task Force requested that the staff perform additional research on the efforts required and methodologies that could be used to implement the proposed model. The Task Force deferred discussion on the effective date and transition method pending the outcome of the staff's research.

Current EITF Discussion

20. At the July 29, 2010 EITF meeting, the Task Force was asked to clarify its views on the proposed changes to the DAC model because some of the wording used in the proposed Update varied from the wording that currently exists in the model for loan origination costs in Subtopic 310-20. Some Task Force members stated that they believe that the DAC model in the proposed Update permitted costs such as commissions paid to internal sales agents to be entirely deferrable. Other Task Force members stated that they believe that deferring the entire commission was inconsistent with the Task Force's original intent and that the treatment of commissions should be consistent with the treatment of similar costs under the loan origination cost model. Those Task Force members supported adding language to the amendments in the proposed Update to require incremental direct costs of contract acquisition to be incurred in transactions with independent third parties in order for them to be deferred in their entirety. Other Task Force members stated that they believe that a commission paid to an individual who is not by law an independent third party, but is independent in most other respects, should be allowed to be deferred in its entirety and discussed whether the right criterion to use was "independent third parties" because for some relationships it may not be clear whether the third party is independent, for example, captive agents. The staff indicated that it was considering incorporating implementation guidance, similar to the FASB Special Report, *A Guide to Implementation of Statement 91 on Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases: Questions and Answers*, into the amendments in the Update to help constituents answer similar types of implementation questions.

21. The Task Force reached a consensus that incremental direct costs of contract acquisition must be incurred in transactions with independent third parties to be deferrable in their entirety and that variable compensation paid to an employee must be considered part of an employee's overall compensation and only the pro-rata portion associated with successful contract acquisitions must be deferred as DAC.

22. The Task Force also discussed whether third-party medical and inspection fees should be deferrable. One Task Force member pointed out that an interpretation of the current model could lead someone to believe that those costs would be required to be expensed. Another Task Force member analogized those costs to third-party appraisal fees that are currently deferred in practice under the loan origination model. Task Force members agreed with this latter view and

requested that the staff clarify the language in the amendments in the final Update to clarify that third-party medical and inspection fees related to successful contract acquisitions would be deferrable as direct incremental costs of contract acquisition. The Task Force also reaffirmed that deferred acquisition costs directly related to the underwriting, policy issuance and processing, medical and inspection, and sales force contract selling activities should include only the portion of an employee's total compensation and payroll-related fringe benefits directly related to time spent performing those activities for actual acquired contracts and other costs related to those activities that would not have been incurred if the contract had not been acquired.

23. The Task Force discussed how an insurance entity should incorporate future cash flows attributable to advertising costs in its premium deficiency analysis and assessment of the realizability of direct-response advertising. The Task Force reaffirmed its consensus-for-exposure that advertising costs should only be capitalized if the criteria for capitalizing such costs pursuant to the direct-response advertising guidance in Topic 340 are met, and concluded that if those criteria are met, the direct-response advertising costs should be included in DAC for classification, subsequent measurement, and premium deficiency purposes pursuant to Topic 944.

Recurring Disclosures

24. The Task Force did not suggest revisions to its consensus-for-exposure to revise the recurring disclosure requirements of paragraph 944-30-50-1, which remains as follows (added text is underlined):

> Insurance entities shall disclose all of the following in their financial statements:
>
> a. The nature and type of **acquisition costs** capitalized
> b. The method of amortizing capitalized acquisition costs
> c. The amount of acquisition costs amortized for the period.

Transition Method, Transition Disclosures, and Effective Date

25. The Task Force discussed the transition for this Issue. The Task Force affirmed as a consensus its consensus-for-exposure that requires prospective application upon the date of adoption and that retrospective application is also permitted, but not required. The Task Force also clarified that if retrospective application is elected, the guidance in Topic 250 for retrospective application should be applied.

26. The Task Force also reached a consensus on transition disclosures. The Task Force concluded that if an entity chooses to apply the requirements of the Update prospectively, the entity would be required to disclose one of the following disclosures in lieu of the disclosure required by paragraph 250-10-50-1(b)(2):

a. The amount of acquisition costs that would have been capitalized during the corresponding period immediately preceding adoption as if the guidance in the proposed Update had been applied during that period compared to the amount previously capitalized during that period.

b. The amount of acquisition costs capitalized during the period of adoption compared to the amount of acquisition costs that would have been capitalized during the period if the entity's previous policy had been applied during that period.

27. The Task Force concluded that if an entity chooses to apply the requirements of the Update retrospectively, the entity would not be required to disclose the effect of the change in the current period as required by paragraph 250-10-50-1(b)(2). However, the other disclosures required by paragraphs 250-10-50-1 through 50-3 would be required.

28. The Task Force agreed with the staff's recommendation to defer the effective date of the Update by one year from the effective date included in the proposed Update. Thus, the final amendments in the Update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Task Force members indicated that they believe that this additional time should be sufficient for entities to update systems and perform time studies to implement the revised model.

29. The Task Force discussed whether to re-expose this Issue in light of the decisions reached at this meeting. The Task Force decided not to re-expose the Issue at this time but rather perform an extended fatal flaw review, including seeking additional input from Working Group members, and post a staff draft of the final Update to the FASB website for comment. The staff draft also is included with these minutes as Appendix 09-0GA.

Status

30. The Task Force is expected to discuss any further comments received on the staff draft of the final Update at a future meeting.

Appendix 09-0GA

SPECIAL STAFF DRAFT FOR ISSUE 09-G

The appendix follows page 36 of these minutes

Issue No. 09-H

Title: Health Care Entities: Revenue Recognition

Dates Discussed: March 18, 2010; July 29, 2010

Introduction

1. Health care entities may perform services for which the ultimate collection of all or a certain portion of the amount billed or billable is not expected in its entirety, is doubtful, or cannot be determined at the time the services are rendered. In some situations (for example, charity care), health care entities record no revenue.

2. For billings to self-pay patients, it has been industry practice for health care entities to adopt a revenue recognition policy to record revenue at the gross charge along with a relatively high bad debt provision as provided for in paragraph 904-605-25-3. Health care entities that apply this policy also record revenue for insured patients when services are provided and adjust that revenue for contractual allowances (discounts) based on third-party payor or other arrangements. A bad debt provision is typically recorded for the amount due for deductibles and co-pays judged to be uncollectible. The bad debt provision is generally classified as an expense and not as a reduction to revenue.

Issue

3. The issue is whether collectibility must be reasonably assured prior to a health care entity recognizing revenue.

Scope

4. This Issue applies to all revenue transactions of health care entities as defined in Topic 954.

Prior EITF Discussion

5. At the March 18, 2010 EITF meeting, the Task Force did not reach a consensus-for-exposure on this Issue. The Task Force discussed the following three views that were included in the Issue Summary:

View A: Collectibility must be reasonably assured prior to a health care entity recognizing revenue.

View B: Collectibility does not need to be reasonably assured prior to a health care entity recognizing revenue.

View C: Collectibility does not need to be reasonably assured prior to a health care entity recognizing revenue. Collectibility should be assessed in measurement rather than initial recognition.

6. Task Force members unanimously agreed that recognition of revenue on a gross basis without regard to collectibility is inconsistent with general revenue recognition guidance and should be eliminated. Accordingly, no Task Force member supported View B.

7. Some Task Force members were supportive of View A because it would align the revenue recognition guidance in the health-care industry with general revenue recognition guidance applied by other industries. Other Task Force members were concerned that application of View A may often result in little or no recognition of revenue at the time a health care entity provides its services for self-pay patients. Those Task Force members did not believe that View A would best reflect the entity's economics.

8. Several Task Force members also observed that health care providers exhibit unique characteristics because in many situations they are obligated by law to provide services to a patient (customer) regardless of whether they know whether that patient has the ability to pay or will be eligible for third-party coverage. Those Task Force members noted that View C would better reflect the economics of the industry. Those Task Force members also noted that View C was consistent with the direction of the FASB joint project on revenue recognition. For these reasons, those Task Force members were supportive of View C and were concerned that View A would require those entities to potentially change their policies twice within a relatively short period of time. Other Task Force members suggested that rather than requiring those entities to change to a completely new model, a more practical approach (referred to as View D) may be to require those entities to continue their current recognition policies; however, at inception require them to reflect bad debt expense as a reduction of revenues to eliminate the gross-up effect.

9. Several Task Force members questioned the operability of the various views including how a health care entity would recognize additional collections or bad debts subsequent to initial recognition. As a result, the Task Force asked the FASB staff to perform additional outreach to the industry on operability considerations of View C and View D.

Current EITF Discussion

10. At the July 29, 2010 EITF meeting, the Task Force did not reach a consensus on this Issue. The Task Force discussed the Working Group members' observations and concerns on the following three approaches included in Issue Summary Supplement No. 1:

> ***Approach A***—Require that collectibility be reasonably assured prior to a health care entity recognizing revenue.
>
> ***Approach B***—Require that collectibility be assessed in measurement of revenue, rather than initial recognition. The effects of subsequent changes in the assessment of credit risk shall be recognized as other income or expense separately from revenue.
>
> ***Approach C***—Require health care entities to continue their current recognition policies; however, require them to reflect bad debt expense as a reduction of revenues to eliminate the gross-up effect.

11. Some Task Force members were supportive of Approach A because it would align the revenue recognition guidance in the health-care industry with general revenue recognition guidance applied by other industries. Other Task Force members were concerned that application of Approach A was inconsistent with the direction of the FASB and IASB's joint

project on revenue recognition, and would potentially require those entities to change their policies twice within a relatively short period of time. Those Task Force members also did not believe Approach A best reflected the economics of the transactions.

12. Most Task Force members were not supportive of Approach B at this time because of the concerns raised by the Working Group about entities needing more time to analyze and implement Approach B, particularly as it relates to subsequent changes in the assessment of credit risk. Other Task Force members raised concerns about adopting a draft model based on the Board's current exposure draft on revenue recognition, which may change again before it is finalized; requiring health care organizations to potentially change their revenue recognition policies twice.

13. Several Task Force members were supportive of Approach C as a practical expedient to eliminate the gross-up effect. Some Task Force members questioned whether the face of the income statement would separately present the bad-debt expense as a reduction to arrive at net revenue. Some Task Force members indicated that they believe that providing such information on the face of the income statement would be useful. Other Task Force members questioned whether that presentation on the face of the income statement would comply with SEC rules and regulations for health care entities subject to those rules and regulations. The SEC Observer noted that Rule 5-03 of Regulation S-X provides that the provision for doubtful accounts should be shown as a separate line item within operating expenses on the face of the income statement. The SEC Observer also indicated that the SEC staff would consider an alternative presentation of bad debt expense if the Task Force were to reach a consensus that such amounts should be reflected as a reduction to gross service revenue in deriving net service revenue reported in the income statement. Other Task Force members were concerned that Approach C would result in no bad debts being reported as an expense, including those related solely to subsequent changes in credit risk. Those Task Force members favored modifying Approach C to require that bad debts relating solely to credit risk continue to be reported as bad-debt expense. Other Task Force members expressed concerns about whether a health care entity would be able to identify subsequent credit-related adjustments, particularly for self-pay patients.

14. Several Task Force members questioned the benefit of View C in reclassifying a number presented on the income statement when a financial statement user is currently able to obtain the same information through other means. Those Task Force members noted that a better approach may be to address the gross-up concerns through expanding disclosures. Such an approach would address several Task Force members' concerns that the industry would have to change its current revenue recognition practice twice, once as a result of this Issue and then upon completion of the FASB and IASB's joint revenue recognition project. As a result, the Task Force asked the FASB staff to perform more outreach and develop disclosures that would be more informative to financial statement users. Those disclosures are expected to focus on a health care entity's revenue recognition policy for its various sources of revenue, along with greater disclosure of bad-debt reserves and their relationship to the entity's revenue recognition policies.

Status

15. Further discussion is expected at a future meeting.

Issue No. 09-K

Title: Health Care Entities: Presentation of Insurance Claims and Related Insurance Recoveries

Dates Discussed: March 18, 2010; July 29, 2010

Introduction

1. Subtopic 720-20 (previously EITF Issue No. 03-8, "Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity") addresses issues related to the accounting by an insured entity for claims incurred under claims-made insurance and retroactive insurance contracts. In Issue 03-8, the EITF observed that "unless the conditions of [FASB] Interpretation [No.] 39[, *Offsetting of Amounts Related to Certain Contracts*,] are met, offsetting prepaid insurance and receivables for expected recoveries from insurers against a recognized IBNR [incurred but not reported] liability or the liability incurred as a result of a past insurable event would not be appropriate." The application of this guidance generally results in liability claims and related insurance recoveries being recorded on a gross-basis.

2. Questions have been raised as to whether the guidance in Subtopic 720-20 applies to health care entities because the AICPA Audit and Accounting Guide, *Health Care Organizations*, included language that some have interpreted as requiring or permitting the netting of insurance recoveries with an organization's estimated accrual for medical malpractice claims.

Issue

3. The issue is how health care entities should record liabilities for medical malpractice and other similar claims and related insurance recoveries.

Scope

4. This Issue applies to entities with medical malpractice or similar liabilities.

Prior EITF Discussion

5. The Task Force reached a consensus-for-exposure that all entities, including health care entities, are required to apply the guidance in Section 210-20-45 in determining whether claims and insurance recoveries are permitted to be presented on a net basis. Task Force members observed that this circumstance did not warrant accounting for health care entities that is different from what is required for entities in other industries.

6. Some Task Force members noted that gross presentation of the insurance receivable that results from applying Subtopic 210-20 better reflects the retained credit risk if the insurer is unable to pay the claim.

7. Other Task Force members observed that the practice of netting insurance recoveries with a liability may not be limited to health care entities and suggested that the amendments proposed by an Accounting Standards Update (proposed Update) emphasize that the guidance in Subtopic 210-20 is applicable to all entities, including health care entities.

8. The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue should be applied as of the beginning of the period of adoption. A cumulative effect adjustment should be recorded in retained earnings as of the beginning of the period of adoption, if applicable. Task Force members observed that application of the amendments resulting from this Issue should generally only result in a gross-up of the balance sheet and that cumulative-effect adjustments would be rare.

9. At the March 31, 2010 meeting, the Board ratified the consensus-for-exposure reached by the Task Force in this Issue and approved the issuance of a proposed Update for a 30-day public comment period.

Current EITF Discussion

10. At the July 29, 2010 EITF meeting, the Task Force discussed the five comment letters received on the proposed Update. The Task Force affirmed as a consensus its consensus-for-exposure that all entities, including health care entities, are required to apply the guidance in Section 210-20-45 in determining whether claims and insurance recoveries are permitted to be presented on a net basis.

11. A Task Force member suggested that the proposed changes to paragraph 954-450-25-2 drafted by the staff be broadened to include other similar contingent liabilities as opposed to only malpractice claims. Other Task Force members agreed and instructed the staff to reflect that change in the final Update.

12. Another Task Force member raised the question about whether the resolution of this Issue should also provide preparers with clarifying guidance concerning the timing of recognition of an insurance recovery receivable, and whether that receivable should be measured on the same basis as the liability to which it relates. In situations in which the insurance company assumes responsibility for malpractice claims or other similar contingent liabilities from the health care entity, Task Force members noted that they would generally expect the measurement of an insurance receivable to be measured at the same amount as the related claim liability, absent collectability issues. Other Task Force members stated that in other insurance situations it may not be appropriate to align the measurement of the insurance recovery receivable with its related liability. Therefore, the Task Force instructed the staff to provide a discussion in the Update of the relevant literature that would assist preparers in determining the timing of recognizing and measuring an insurance recovery receivable.

13. The staff had received an informal comment questioning whether additional changes in the proposed Update should be made to eliminate the industry-specific guidance that requires that legal costs associated with litigation or settling claims be accrued when the incidents that give rise to those claims occur. Based on that comment and other feedback from the comment letters received on the proposed Update, the Task Force discussed whether the treatment of legal costs associated with medical malpractice claims or similar contingent liabilities should be consistent with other industries. As a result, the Task Force discussed adding a separate Issue to its agenda to consider the treatment of legal costs. The FASB chairman, who was present at the meeting, did not object to the addition of EITF Issue No. 10-F, "Accounting for Legal Costs Associated

with Medical Malpractice Claims," to the EITF Agenda. The Task Force's discussion and consensus-for-exposure on the treatment of legal costs is incorporated under the July 29, 2010 EITF meeting minutes for Issue 10-F.

Recurring Disclosures

14. The Task Force decided that no additional recurring disclosure requirements should be proposed by this Issue.

Transition Method, Transition Disclosures, and Effective Date

15. The Task Force affirmed as a consensus its consensus-for-exposure that the amendments resulting from this Issue should be applied as of the beginning of the period of adoption. A cumulative-effect adjustment should be recorded in retained earnings as of the beginning of the period of adoption, if applicable. Some Task Force members observed that they would not expect a cumulative effect to occur because when an entity has transferred the entire risk of the claim to the insurance carrier, the entity does not retain a net liability; assuming the insurance carrier performed on the claim. The Task Force reached a consensus that retrospective application of the amendments resulting from this Issue to all prior periods should be permitted.

16. Transition disclosures from paragraphs 250-10-50-1 through 50-3 are required in the period an entity adopts the provisions of the amendments resulting from this Issue. The Task Force reached a consensus that the amendments resulting from this Issue shall be effective for fiscal years beginning after December 15, 2010, and interim periods within those years, with early adoption permitted.

Board Ratification

17. At the August 18, 2010 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

Status

18. No further EITF discussion is planned.

Issue No. 09-L

Title: Health Care Entities: Measuring Charity Care for Disclosure

Dates Discussed: March 18, 2010; July 29, 2010

Introduction

1. Health care entities provide services to certain patients without expectation of payment (or cash inflows). These services are called charity care and are generally provided to patients who meet certain guidelines established by the health care entity, such as prescribed financial criteria of the patient.

2. Guidance provided in paragraphs 954-605-25-10 through 25-11 discusses charity care in the health care industry as follows:

> Charity care does not qualify for recognition as revenue in the financial statements. Distinguishing charity care from bad-debt expense requires the exercise of judgment. Only the portion of a patient's account that meets the entity's charity care criteria shall be recognized as charity.
>
> Although it is not necessary for the entity to make this determination on admission or registration of an individual, at some point the entity must determine that the individual meets the established criteria for charity care.

3. Paragraph 954-605-50-3 describes the disclosure requirements for charity care:

> Management's policy for providing charity care, as well as the level of charity care provided, shall be disclosed in the financial statements. Such disclosure generally is made in the notes to financial statements and is measured based on the provider's rates, costs, units of service, or other statistical measure.

4. Some constituents believe that disclosure about a health care entity's policy for providing charity care, as well as the level of charity care provided, is useful because it provides an indication of the level of community benefit provided by the health care entity. Donors, regulators, and others are interested in the level of community benefit provided by a health care entity. The disclosure regarding charity care may also be useful for comparing health care entities that have different charity care policies or health care entities that serve different patient demographics. Other users may consider charity care disclosures when considering trends in patient account write-offs. Additionally, some health care entities may receive funding from state and local governments, or other sources, to compensate for services provided to patients who meet criteria to receive charity care.

5. Under the current requirements, measurement of charity care for disclosure may be presented using a variety of options. Measurement of charity care using the provider's standard rates (as an indication of charges foregone) has been the most prevalent. Some have used cost in their disclosures. Other measures are used less frequently in practice. Questions have been

raised about whether the measure used in providing this disclosure should be standardized to improve comparability of reporting by health care entities.

Issue

6. The issue is how the disclosure of charity care provided by health care entities should be measured.

Scope

7. This Issue applies to all health care entities.

Prior EITF Discussion

8. The Task Force reached a consensus-for-exposure that cost should be the measurement basis for a health care entity's charity care disclosure. Cost should be determined consistent with the measurement used for reporting charity care for IRS regulatory purposes (that is, the direct and indirect costs related to providing the service). Some Task Force members observed that requiring a single measure of charity care would improve the usefulness of the disclosure by enhancing comparability. Other Task Force members noted that because many health care entities are already tracking the costs of providing charity care for regulatory or management purposes, providing such disclosure should not be costly to implement.

9. The Task Force considered measuring charity care based on the average rate collected from paying patients for similar services because some Task Force members indicated that they believe that this measure would be more meaningful. However, the Task Force decided not to use that measurement because it would require many health care entities to develop new systems or methods to collect the information for the disclosure. The Task Force did not believe the benefits of such a disclosure justified the costs of such system changes.

10. The Task Force considered whether to eliminate the requirement to disclose charity care. The Task Force decided to retain the disclosure requirement because it believes that the disclosure provides useful information to users of a health care entity's financial statements.

11. The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue shall be applied retrospectively. Early adoption would be permitted.

12. At the March 31, 2010 meeting, the Board ratified the consensus-for-exposure reached by the Task Force for this Issue and approved the issuance of a proposed Accounting Standards Update (proposed Update) for a 30-day public comment period.

Current EITF Discussion

13. At the July 29, 2010 EITF meeting, the Task Force discussed the 16 comment letters received on the proposed Update. The Task Force affirmed as a consensus its consensus-for-exposure that cost (that is, the direct and indirect costs related to providing the care) should be the measurement basis for a health care entity's charity care disclosure. Some Task Force members noted that the amendments in the proposed Update should be clarified so that entities understand that various techniques could be used to determine the amount of the cost for charity care, such as directly from a costing system or through reasonable estimation techniques. The

FASB staff was asked to clarify that point by providing disclosure examples that would highlight the various estimation techniques that an entity may employ.

14. Some comment letter respondents requested that the Task Force clarify that the cost of providing charity care should be reduced by any associated subsidies (such as from an uncompensated care fund). The Task Force concluded that the cost of providing charity care should not be reduced by associated subsidies; rather, subsidies related to charity care should be separately disclosed. Task Force members observed that the gross amount of cost and the associated subsidies would be useful to users analyzing trends and understanding an entity's level of charity care provided during a period. Task Force members also noted that subsidies may not be recurring, and may not relate to the care provided in the period the subsidy is recognized.

Recurring Disclosures

15. The Task Force decided to require the following additional recurring disclosures in the final Update:

1. Reimbursements received intended to compensate an entity for providing charity care, for example, from an uncompensated care fund, shall also be separately disclosed.
2. Description of the method used to determine the costs of providing charity care.

Effective Date, Transition Method, and Transition Disclosures

16. The Task Force affirmed as a consensus its consensus-for-exposure that the amendments resulting from this Issue shall be applied retrospectively. Early adoption would be permitted. The Task Force reached a consensus that the amendments resulting from this Issue shall be effective for fiscal years beginning after December 15, 2010.

Board Ratification

17. At the August 18, 2010 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

Status

18. No further EITF discussion is planned.

Issue No. 10-A

Title: How the Carrying Amount of a Reporting Unit Should Be Calculated When Performing Step 1 of the Goodwill Impairment Test

Date Discussed: July 29, 2010

Introduction

1. Goodwill is tested for impairment at the reporting unit level based on a two-step test. The first step, Step 1, compares the fair value of a reporting unit to its carrying amount, including goodwill. If a reporting unit's carrying amount exceeds its fair value, the second step of the test must be performed to measure the amount of impairment, if any.

2. Based on past and current practice issues (for example, reporting units with negative carrying values, and significant differences in the fair value versus par amount of debt) and a recent speech by an SEC staff member at an AICPA conference in 2009, constituents have questioned whether a reporting unit's carrying amount should be based on an Enterprise premise or on an Equity premise.

3. A Working Group was formed to assist the staff in understanding the issues associated with applying both the Equity premise and the Enterprise premise and in identifying potential solutions to address those issues. The Working Group was asked to provide perspectives on the various approaches but was not asked to form a Working Group recommendation.

Issue

4. The issue is how the carrying amount of a reporting unit should be calculated when performing Step 1 of the goodwill impairment test. The following views were presented to the EITF for discussion at the July 29, 2010 meeting:

View A: Specify that Step 1 of the test is to be performed using an Equity premise but require that Step 2 of the test be performed when a reporting unit has a negative carrying amount.

View B: Specify that Step 1 of the test is to be performed using an Equity premise but require that Step 2 of the test be performed if qualitative factors exist that indicate that goodwill may be impaired and those factors were not taken into account in Step 1 of the test.

View C: Specify that Step 1 of the test is to be performed using an Enterprise premise.

View D: Specify that Step 1 of the test is to be performed using an Asset premise.

View E: Specify that Step 1 of the test is to be performed on the basis of how a market participant would value the reporting unit in a transaction.

Scope

5. This Issue applies to reporting entities that are required to test goodwill for impairment.

Current EITF Discussion

6. At the July 29, 2010 EITF meeting, several Task Force members noted that the concerns raised by constituents generally involved single reporting unit entities, particularly when those entities have a negative carrying value. Further, they noted that one of the primary causes of those concerns resulted from the allocation of all liabilities of an entity to a single reporting unit in determining the carrying value for Step 1 of the goodwill impairment test. That allocation procedure differs from multiple reporting unit entity situations in which corporate-level liabilities such as financing debt may not be allocated to the entity's reporting units. Those Task Force members suggested that one approach that could address the concerns is to clarify that the existence of single or multiple reporting units should not be the determining factor of whether a liability should be included in a reporting unit's carrying value for goodwill impairment testing purposes. Task Force members suggested that other variants of View A or View B might address the issue as well. Examples of those approaches included (a) requiring Step 2 to be performed when a reporting unit has a negative carrying value and the reporting unit is experiencing financial difficulties that may be indicative of an impairment and (b) developing View B to provide definitive qualitative factors that would need to be considered when a negative carrying value exists rather than providing examples of factors that might need to be considered.

7. After their discussion of potential approaches, Task Force members generally favored developing approaches that more narrowly addressed the situations causing the concerns raised in this Issue, rather than more broadly revising the goodwill impairment model. Accordingly, Task Force members were generally not supportive of Views C, D, or E. The Task Force asked the staff to discuss with the Working Group variations of View A and View B.

Recurring Disclosures, Transition Method, and Transition Disclosures

8. Recurring disclosures, transition method, and transition disclosures were not discussed.

Status

9. The FASB staff plans to meet with the Working Group to further develop alternatives that would be similar to either View A or View B, and plans to present the results of that Working Group meeting at an upcoming EITF meeting along with staff recommendations for recurring disclosures, transition method, and transition disclosures.

Issue No. 10-B

Title: Accounting for Multiple Foreign Exchange Rates

Date Discussed: July 29, 2010

Introduction

1. Topic 830, Foreign Currency Matters, provides guidance on the use of an appropriate exchange rate for translation of an entity's operations in a foreign country and remeasurement of its foreign currency transactions.

2. Countries that do not have exchange controls generally have a single free market exchange rate that is used to settle all foreign currency denominated transactions and remit dividends to foreign investors. However, countries that have exchange controls may have multiple exchange rates. Such is the case where governments mandate that foreign currencies (including U.S. dollars) needed to settle certain types of transactions may be obtained at a rate that is either favorable (a preferential rate) or less favorable (a penalty rate) than the rate that would apply to other transactions, including a remittance of dividends to a foreign investor. For example, a preference rate may be available to pay for imports of essential goods and services, while a penalty rate would apply to pay for imports of what the foreign government considers as nonessential goods and services. These preference and penalty rates may be different from that government's specified dividend remittance rate.

3. For situations in which multiple exchange rates exist, there appears to be diversity in practice in the application of the guidance in Topic 830 with respect to the selection of an appropriate exchange rate for translation of an entity's operations in a foreign country and the remeasurement of foreign currency transactions.

Issues

4. The issues are:

Issue 1— In an economy with multiple exchange rates (such as a market rate and a preferential/penalty rate), the exchange rate that should be used for (a) remeasurement of a foreign-currency-denominated transaction and (b) translation of a foreign subsidiary's financial statements

Issue 2— The additional disclosures that should be reflected in the financial statements of the reporting entity.

Scope

5. The scope of this Issue applies to any reporting entity that has a foreign subsidiary in a country in which multiple exchange rates exist, and the functional currency of that foreign subsidiary is the local currency. While this Issue was raised in the context of unique foreign currency exchange restrictions in Venezuela, its scope is not limited to any specific country. Further, this Issue is not currently relevant for a reporting entity's Venezuelan operations because

that economy is currently considered to be highly inflationary under Topic 830, and, therefore, the Venezuelan subsidiary's functional currency is no longer its local currency (that is, the Bolivar) but, for subsidiaries of a U.S. parent, would be the U.S. dollar.

Current EITF Discussion

6. At the July 29, 2010 meeting, the Task Force discussed whether it is appropriate to use a different exchange rate for (a) remeasurement of foreign currency transactions at a foreign subsidiary and (b) the translation of the foreign subsidiary's financial statements into its parent's reporting currency when multiple exchange rates exist. Some Task Force members expressed concern with the view that it may be appropriate to use different exchange rates if a foreign-currency-denominated transaction will be settled at either the preferential rate or the penalty rate and there are no unusual circumstances to preclude the use of the dividend rate for translating the subsidiary's financial statements, because amounts denominated in the parent's reporting currency could be different in the consolidated parent's financial statements as a result of the remeasurement and translation process. Other Task Force members were particularly concerned about situations in which the subsidiary's foreign-denominated bank accounts are held off-shore, in the reporting entity's jurisdiction. Other Task Force members indicated that they believe that it may be appropriate to use different exchange rates when multiple exchange rates exist because the entity may be able to receive the benefit from an exchange rate arbitrage if the entity has the ability to access the preferential rate for dividend purposes. However, Task Force members noted that additional guidance would be beneficial for determining when an unusual circumstance exists that would cause an entity to use a rate other than the dividend rate for translation, such as when a government's lack of performance on a rate raises questions as to the entity's ability to realize the rate arbitrage.

7. The Task Force was not asked to reach a consensus on this Issue. However, the Task Force directed the FASB staff to perform further analysis on the practice issues in Venezuela. Specifically, the Task Force asked the staff to investigate whether additional guidance is required to clarify (a) what constitutes an "unusual circumstance" as referred to in paragraph 830-30-45-6, (b) what the accounting should be if an unusual circumstance exists, and (c) when deconsolidation is required based on a lack of exchangeability of a foreign currency.

Status

8. This Issue will be discussed further at a future meeting.

Issue No. 10-C

Title: Reporting Loans to Participants by Defined Contribution Pension Plans

Date Discussed: July 29, 2010

Introduction

1. Participants in a defined contribution plan can direct the investment of a portion of their plan account balance into an investment in a loan to themselves if the plan allows for participant loans. A portion of the participant's assets are liquidated to provide the cash for the loan. Generally, the only "collateral" for the loan is the participant's account balance. This means that if the participant defaults on the loan, the participant's balance is offset. There is no recourse to a participant's personal assets, other than their balance in the plan. Therefore, in the event of a default, no assets are returned to the plan. There is no consequence to a participant for a default, other than that the unpaid loan balance is subject to taxation. The plan document can set forth all the specifics of the loan program or, instead, may refer to a separate written loan policy that is adopted by the employer, the plan sponsor, or other responsible person. Participants use information posted on plan websites or other communications to make investment or loan-related decisions rather than plan financial statements, which are generally issued annually many months after year-end and do not provide information on performance, rates, or fund strategies.

2. Participant loans are generally 5 years in duration with the exception being loans used to purchase primary residences; in which case the duration is usually 10 years but could be longer. Interest rates fluctuate generally based on a published rate, such as prime, but are fixed for the duration of the loan. Interest rates do not vary based on a participant's creditworthiness.

3. Each year, pension and welfare benefit plans subject to the Employee Retirement Income Security Act (ERISA) are required to file an annual report with the Department of Labor (DOL). That filing, the "Form 5500 filing," includes information with regard to a plan's financial condition, investments, and operations. Unless the plan meets certain conditions, it is required to attach its audited financials to its Form 5500 filing. Form 5500 requires plan assets to be reported at "current value," which is defined as "fair market value where available." Otherwise, it means fair value as determined in good faith under the terms of the plan by a trustee or a named fiduciary, assuming an orderly liquidation at the time of determination. Resulting differences between the audited financials and the Form 5500 filing are required to be presented in a note to the financial statements that reconciles such differences.

4. Although participant loans are by their nature receivables, for reporting purposes participant loans are considered an investment in accordance with the defined contribution pension plan guidance in paragraph 962-325-45-10. Section 962-325-35 requires most investments held by a plan, including participant loans, to be carried at fair value. According to Topic 820, Fair Value Measurements and Disclosures, fair value of plan investments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In practice, most participant loans are carried at their amortized cost, which was considered a good faith approximation of the fair value using that definition. Some

believe that under Topic 820, plans cannot assume that the outstanding principal balance of a loan approximates its fair value and, therefore, the valuation principles of Topic 820 should be applied. Therefore, estimating the fair value of a participant loan requires highly subjective (and perhaps arbitrary) assumptions with regard to market interest rates and credit risk, among other assumptions. Some constituents believe that the subjectivity of these assumptions would result in information that is not comparable, reliable, or decision useful.

5. Some constituents believe that fair value determined in accordance with Topic 820 may not be a relevant measurement attribute for participant loans because repayments of the unpaid balance of the loan are at the original amount advanced, plus interest, less previous payments. A participant would not repay more than the unpaid balance plus accrued interest. Accordingly, a value other than the unpaid balance of the participant loan could be misleading to the participants and other financial statement users (such as plan regulators).

Issue

6. The issues are:

Issue 1— How participant loans held by a defined contribution plan should be classified in the statement of net assets available for benefits.

Issue 2— If the Task Force reaches a consensus-for-exposure determining that participant loans are investments in Issue 1, what the appropriate measurement basis for a participant loan should be.

Scope

7. The scope of this Issue includes all participant loans in defined contribution plans.

Current EITF Discussion

8. At the July 29, 2010 EITF meeting, the Task Force discussed how participant loans should be classified in the statement of net assets available for benefits. Some Task Force members indicated that they believe that participant loans are more accurately reflected as distributions because the borrower is not legally obligated to pay the loan back to the plan. However, other Task Force members noted the personal income tax rules penalize individuals if amounts are not repaid. Other Task Force members indicated that they believe that classification of participant loans as notes receivable acknowledges that participant loans are unique investments in that a participant taking out such a loan essentially borrows against their own individual account. Those Task Force members also believe that this classification best reflects the legal nature of the asset, which is documented as a loan from the plan to the participant.

9. The Task Force reached a consensus-for-exposure on Issue 1 that participant loans should be classified as notes receivable, measured at their unpaid principal balance plus any accrued but unpaid interest. Given the consensus-for-exposure on Issue 1, the Task Force did not address Issue 2.

Recurring Disclosures

10. The Task Force concluded that no additional recurring disclosures specific to participant loans would be included in the consensus-for-exposure.

Transition Method and Disclosures

11. The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue shall be effective on a retrospective basis, with early application permitted.

Board Ratification

12. At the July 29, 2010 EITF meeting, all five members of the Board were present and voted to ratify the consensus-for-exposure reached by the Task Force for this Issue and approved the issuance of a proposed Update for a public comment period.

Status

13. Further discussion is expected at a future meeting.

Issue No. 10-D

Title: Accounting for Certain Fees Associated with Recently Enacted Health Care Legislation

Date Discussed: July 29, 2010

Introduction

1. On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (PPACA). In addition, the President signed into law the Health Care and Education Reconciliation Act, which includes a number of changes to the PPACA (in combination, the Acts) on March 30, 2010.

2. The Acts impose an annual fee on the pharmaceutical manufacturing industry for each calendar year beginning on or after January 1, 2011. An entity's portion of the annual fee is payable no later than September 30 of the applicable calendar year and is not tax deductible. The annual fee ranges from $2.5 billion to $4.1 billion and a percentage will be allocated to individual entities based upon the amount of their branded prescription drug sales for the preceding year as a percentage of the industry's branded prescription drug sales for the same period.

3. A pharmaceutical manufacturing entity's portion of the entire annual fee becomes payable to the U.S. Treasury once that entity has a gross receipt from branded prescription drug sales to any specified government program or pursuant to coverage under any government program within each calendar year beginning on or after January 1, 2011.

4. Based on the timing of when the pharmaceutical manufacturing industry becomes obligated to pay the fee, it is expected that industry participants will recognize their pro rata share of the fee in the annual period in which the fee is due (beginning in 2011 for the payment due in 2011). Industry participants generally view the fee as an annual cost to participate in the government programs for the year that the payment is due and that the use of prior year sales is simply a mechanism to allocate the fee among industry participants based on market share in the government programs. Industry participants have discussed the timing of the recognition of the annual fee with SEC staff members, who have indicated that they will not object to that view. In addition, the SEC staff has indicated that it would not object to recognizing the annual fee over the calendar year when it is paid using a straight-line attribution method unless another method better allocates the cost or revenue reduction over the period of benefit.

5. While there is general agreement on the annual period in which the fee will be recognized, divergent views exist relating to (a) how the annual fee imposed by the Acts should be classified in a reporting entity's income statement and (b) whether the annual fee should be expensed in its entirety when the liability is recognized or whether an asset should be recognized and amortized over the calendar year.

Issues
6. The issues are:

Issue 1— How the annual fee imposed by the Acts should be classified in a reporting entity's income statement

Issue 2— Whether the annual fee should be expensed in its entirety when the liability is recognized or whether an asset should be recognized and amortized over the calendar year.

Scope
7. This Issue applies to all pharmaceutical manufacturers that are subject to the annual fee discussed above, which, according to Section 9008 of the Act, is any manufacturer or importer with gross receipts from branded prescription drug sales to any federal government program.

Current EITF Discussion
8. At the July 29, 2010 EITF meeting, some Task Force members questioned whether this Issue should address whether the obligation to pay the fee should be recognized during the year it is payable or during the year that the sales that factor into the computation of the amount of the fee occur (the year prior to payment of the fee). However, that issue was not added to this Issue.

9. With respect to Issue 1, some Task Force members suggested that an accounting policy election may be the most appropriate manner in which to address the presentation of the fee due to concerns about the impact of this Issue on the accounting for other similar fees paid to governmental entities. Those Task Force members noted that determining the substance of governmental assessments is oftentimes judgmental and that many entities have existing policies on how they determine whether a payment to the government who is also a customer is treated as a cost or a reduction of revenue. Additionally, some Task Force members stated that they believe that the fee should be treated similar to a payment to a customer, while other members indicated that they believe that the substance of the fee was more similar to a cost of doing business in the year the fee was levied or a tax in the year the fee was levied. After discussion, the Task Force concluded that there was sufficient benefit to users of the financial statements such that the fee should be treated consistently by the industry, which would not result if an option was provided. A few Task Force members indicated that they believe that if the fee was viewed as a payment to a customer or rebate, it may require further consideration about the period in which the fee should be recognized. For Issue 1, the Task Force reached a consensus-for-exposure that the annual fee should be presented as an operating expense. For Issue 2, the Task Force reached a consensus-for-exposure that upon recognition of the liability, the annual fee should be recognized over the benefit period using a straight-line method of allocation unless another method better allocates the fee over the period of benefit. Some Task Force members noted that they did not believe the consensus on this Issue should affect an entity's accounting for other similar fees paid to governmental entities due to the unique nature of the fee and the limited scope of this Issue. The Task Force concluded that its consensus in this Issue should not be analogized to in accounting for other government fee based arrangements, however, the Task Force agreed to include a question in the proposed Update about whether the consensus in this

Issue should apply to other fees mandated by the Acts (for example, fees required under the Acts for health insurers).

Recurring Disclosures

10. The Task Force reached a consensus-for-exposure that no additional recurring disclosure requirement should be provided for this Issue.

Transition Method and Disclosures

11. As the first annual fee is not payable until 2011, the annual fee will not affect a reporting entity's income statement until after the Task Force plans to reach a final consensus on this Issue. Accordingly, the Task Force reached a consensus-for-exposure that the proposed Update be effective for calendar years beginning after December 31, 2010.

Board Ratification

12. At the August 18, 2010 meeting, the Board ratified the consensus-for-exposure reached by the Task Force for this Issue and approved the issuance of a proposed Update for a public comment period.

Status

13. Further discussion is expected at a future meeting.

Issue No. 10-F

Title: Accounting for Legal Costs Associated with Medical Malpractice Claims[4]

Date Discussed: July 29, 2010

Introduction

1. At the July 29, 2010 EITF meeting, the Task Force discussed an informal comment received by the FASB staff questioning whether additional changes to eliminate industry-specific guidance should be made in the proposed Accounting Standards Update (proposed Update) for EITF Issue No. 09-K, "Health Care Entities: Presentation of Insurance Claims and Related Insurance Recoveries," regarding the accrual of legal fees associated with resolving medical malpractice claims. Based on that comment and other feedback received from the comment letters on Issue 09-K, the Task Force considered whether providing an industry exception was appropriate or whether the treatment of legal costs should be consistent with other industries. As a result, the Task Force discussed adding a separate Issue to its agenda to consider the treatment of legal costs. The FASB Chairman, who was present at the EITF meeting, did not object to adding Issue 10-F to the EITF Agenda.

Issue

2. The issue is whether the industry-specific requirement that health care entities accrue legal costs related to litigating medical malpractice claims or similar claims before those costs are incurred should be eliminated.

Current Discussion

3. At the July 29, 2010 EITF meeting, the Task Force discussed how, currently, entities in other industries have made an accounting policy election to either expense legal fees as incurred or accrue estimated legal fees when the associated claim is incurred, in accordance with the guidance in paragraph 450-20-S99-2. Task Force members agreed that current guidance would be improved by eliminating an industry-specific exception for health care entities and aligning the accounting practices in that industry with Subtopic 450-20, Contingencies—Loss Contingencies. In that regard, the Task Force reached a consensus-for-exposure that health care entities should be allowed to make a policy election to expense legal fees as incurred or accrue estimated legal fees when the associated claim is incurred. The Task Force also agreed to include a question in the proposed Update about whether the accounting for the treatment of internal legal costs should be different from the accounting for the treatment of external legal costs. Task Force members also indicated that they believe that the amendments in the proposed Update should be applied retrospectively to all prior periods presented.

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[4] This Issue originated as a sub-issue of EITF Issue No. 09-K, "Health Care Entities: Presentation of Insurance Claims and Related Insurance Recoveries."

Board Ratification

4. At the August 18, 2010 meeting, the Board ratified the consensus-for-exposure reached by the Task Force for this Issue and approved the issuance of a proposed Update for a public comment period.

Status

5. Further discussion is expected at a future meeting.

Status of Open Issues and Agenda Committee Items

The following represents the FASB staff's assessment of the status and immediate plans with respect to the open Issues on the Task Force's agenda. The Issues on the proposed agenda for the September 16, 2010 meeting are considered either high priority issues or issues on which meaningful progress can be made within the staff's given complement of resources. The staff's prioritization of issues is based primarily on the FASB staff's understanding of the level of diversity in practice created by each respective Issue, the financial reporting implications of that diversity, the current interaction, if any, of the Issues with active Board projects, and current resource availability among the staff (with respect to both time and relevant technical expertise).

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
09-G	Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts	10/09	11/09, 3/10, 7/10	6/10	Bielstein	Brower/ Breen	The FASB staff will prepare an Issue Supplement following exposure of a Staff Draft	September 16, 2010 EITF meeting
09-H	Health Care Entities: Revenue Recognition	10/09	3/10, 7/10	06/10	Hanson	Hildebrand/ Cadambi	The FASB staff will prepare an Issue Supplement for a future meeting	September 16, 2010 EITF meeting
10-A	How the Carrying Amount of a Reporting Unit Should Be Calculated When Performing Step 1 of the Goodwill Impairment Test	2/10	7/10	6/10	Hauser	Worshek/ Couch	The FASB staff will prepare an Issue Supplement following the August 17 Working Group meeting	September 16, 2010 EITF meeting

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
10-B	Accounting for Multiple Foreign Exchange Rates	3/10	7/10	6/10	Uhl	Farber/ Brower	The FASB staff will prepare an Issue Supplement following the August 24 Working Group meeting	Future EITF meeting
10-C	Reporting Loans to Participants by Defined Contribution Pension Plans	6/10	7/10	6/10	Hanson	Gonzales/ Yang	The FASB staff will prepare an Issue Supplement for a future meeting	September 16, 2010 EITF meeting
10-D	Accounting for Certain Fees Associated with Recently Enacted Health Care Legislation	6/10	7/10	6/10	Bielstein	Worshek/ Bauer	The FASB staff will prepare an Issue Supplement for a future meeting	November 19, 2010 EITF meeting
10-E	Debtor's Accounting for Real Estate Subject to a Nonrecourse Mortgage in Default Prior to Forfeiture	6/10		9/10	Hauser	Cadambi/ Farber	The FASB staff will prepare an Issue Summary for a future meeting	September 16, 2010 EITF meeting
10-F	Accounting for Legal Costs Associated with Medical Malpractice Claims	7/10	7/10	9/10	Hanson	Hildebrand/ Gonzales	The FASB staff will prepare an Issue Supplement for a future meeting	November 19, 2010 EITF meeting

Other EITF Issues including Inactive Issues Pending Developments in Board Projects							
Issue No.	**Description**	**Date Added**	**Date(s) Discussed**	**Next Meeting**	**FASB Staff**	**Immediate Plans**	**Due Date - Next Deliverable**
03-15	Interpretation of Constraining Conditions of a Transferee in a Collateralized Bond Obligation Structure	11/02	N/A	Not scheduled	TBD	The Board's project on QSPE's is not expected to address this Issue and, therefore, the FASB staff will bring this Issue to the Agenda Committee at a future meeting to determine whether to begin discussions on this Issue or to request that the Issue be removed from the agenda.	Future Agenda Committee or EITF Meeting
06-12	Accounting for Physical Commodity Inventories for Entities within the Scope of the AICPA Audit and Accounting Guide, *Brokers and Dealers in Securities*	8/06	11/06	Not scheduled	TBD	Pending the outcome of the Board's project to amend ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*.	Future EITF Meeting
09-D	Application of the AICPA Audit and Accounting Guide, *Investment Companies*, by Real Estate Investment Companies	2/09	N/A	N/A	Yang/ Mills	Pending the outcome of the Board's projects on consolidation and investment properties.	Future EITF Meeting

Issues Pending Further Consideration by the Agenda Committee							
Issue No.	**Description**	**Date Added**	**Date(s) Discussed**	**Next Meeting**	**FASB Staff**	**Immediate Plans**	**Due Date - Next Deliverable**
N/A	Application of EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," When a Special-Purpose Entity Holds Equity Securities and Whether an Investment That Is Redeemable at the Option of the Investor Should Be Considered an Equity Security or Debt Security	9/00	N/A	Not scheduled	TBD	Statement 155 did not address this Issue. Therefore, the FASB staff will bring this Issue to the Agenda Committee at a future meeting to determine whether to begin discussions on this Issue.	Future Agenda Committee meeting

FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

APPENDIX 09-0GA
SUPPLEMENT TO THE JULY 29, 2010 EITF MINUTES

Accounting Standards Update

No. 2010-XX
Month 2010

STAFF DRAFT
AUGUST 19, 2010
OF THE FINAL DRAFT ON

Financial Services—Insurance (Topic 944)

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

a consensus of the FASB Emerging Issues Task Force

SUBJECT TO CHANGE

An Amendment of the *FASB Accounting Standards Codification*™

Financial Accounting Standards Board
of the Financial Accounting Foundation

Notice to Recipients of This Staff Draft of an Accounting Standards Update on Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

This staff draft of an Accounting Standards Update has been prepared by the staff of the FASB for EITF Issue No. 09-G, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts." The draft reflects the cumulative, tentative conclusions made by the EITF culminating with its meeting on July 29, 2010. However, work on the Issue is continuing, and the proposals are subject to change before the EITF affirms as a final consensus and the Board decides to ratify that consensus and issue a final Accounting Standards Update.

The EITF decided to engage in additional outreach activities, such as soliciting fatal flaw comments from the Working Group, before affirming its consensus-for-exposure, which was previously published as an exposure draft of a proposed Accounting Standards Update on December 17, 2009.

After completing this outreach activity, the EITF will consider whether to change any of its tentative decisions in response to the input received. The EITF is not formally inviting comments on this staff draft; however, it welcomes input from interested parties. The EITF expects to reach a final consensus at its September 16, 2010 meeting.

More information about Issue 09-G is available on the FASB website www.fasb.org.

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Accounting Standards Update

Financial Services—Insurance (Topic 944)

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

a consensus of the FASB Emerging Issues Task Force

August 2010

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The current definition of *acquisition costs* in the Master Glossary of the *FASB Accounting Standards Codification*™ is "costs that vary with and are primarily related to the acquisition of insurance contracts." Costs that meet that definition are typically recognized as assets and are commonly referred to as deferred acquisition costs.

Deferred acquisition costs are amortized over time using amortization methods dependent upon the nature of the underlying insurance product (that is, proportional to revenues, based on a contract's estimated gross profit, or based on a contract's estimated gross margin). Other costs that do not vary with and are not primarily related to the acquisition of new and renewal insurance contracts—such as those relating to investment management, general administration, and policy maintenance—are charged to expense as incurred.

As a result of the diversity in practice relating to the interpretation of which costs qualify as acquisition costs within the insurance industry, certain stakeholders initially raised the question of whether advertising costs meet the definition of acquisition costs. However, interpretation of the phrase, *vary with and are primarily related to* raises a broader conceptual issue that also applies to other types of costs; therefore, application of the amendments in this Update are not limited to advertising costs.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect insurance entities that are within the scope of Topic 944 (which includes but is not limited to stock life insurance entities, mutual life insurance entities, and property and liability insurance entities) that incur costs in the acquisition of new and renewal insurance contracts.

What Are the Main Provisions?

The amendments in this Update specify that the following costs incurred in the acquisition of new and renewal contracts should be capitalized in accordance with the amendments in this Update:

1. Incremental direct costs of contract acquisition incurred in transactions with independent third parties for that contract. Incremental direct costs are those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had that contract transaction not occurred.
2. Certain costs directly related to the following acquisition activities performed by the insurer for the contract:
   a. Underwriting
   b. Policy issuance and processing
   c. Medical and inspection
   d. Sales force contract selling.

   The costs directly related to those activities include only the portion of an employee's total compensation and payroll-related fringe benefits directly related to time spent performing those activities for actual acquired contracts and other costs directly related to those activities that would not have been incurred if the contract had not been acquired.

Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in Subtopic 340-20, Other Assets and Deferred Costs—Capitalized Advertising Costs, are met. If those criteria are met, the direct-response advertising costs should then be included as deferred acquisition costs for classification, subsequent measurement, and premium deficiency purposes in accordance with Topic 944. If the capitalization criteria in Subtopic 340-20 are not met, advertising costs are not included as deferred acquisition costs and should be accounted for in accordance with the guidance in Subtopic 720-35, Other Expenses—Advertising Costs.

All other acquisition-related costs—including costs incurred by the insurer for soliciting potential customers, market research, training, administration, unsuccessful acquisition or renewal efforts, and product development—should be charged to expense as incurred. Administrative costs, rent, depreciation, occupancy, equipment, and all other general overhead costs are considered indirect costs and should be charged to expense as incurred.

If the initial application of the amendments in this Update results in the capitalization of acquisition costs that had not previously been capitalized by an entity, the entity may elect not to capitalize those types of costs.

The amendments in this Update do not affect the guidance in paragraphs 944-30-25-4 through 25-5, which prohibits the capitalization of certain costs incurred in obtaining universal life-type contracts.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update modify the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. This revised definition may represent a significant change in practice for many insurance entities. For example, many insurance entities capitalize costs relating to unsuccessful contract acquisitions. The amendments in this Update specify that the costs must be based on successful efforts (that is, a new or renewal contract). The amendments also specify that advertising costs should only be included as deferred acquisition costs if the direct-response advertising criteria in Subtopic 340-20 are met.

The Board has an ongoing joint project on its agenda with the IASB on the accounting for insurance contracts. The Boards' current view in that project is that acquisition costs incurred for long-duration contracts should be included in the determination of the cash outflows of that insurance contract. The Board of the FASB has not concluded on the treatment of acquisition costs for short-duration contracts. The guidance from that joint project, if finalized, is not currently expected to be effective before 2014. By clarifying the acquisition costs that can be deferred now, the amendments in this Update improve current GAAP by providing a clearer definition of a qualifying capitalizable acquisition cost and, therefore, limits the significant diversity in practice that has developed in this area, particularly as it relates to the capitalization of costs related to unsuccessful acquisition efforts. This revised definition also improves consistency among insurance entities and financial institutions with respect to capitalizable costs because the definition is consistent with the types of costs that can be capitalized relating to loan originations in Topic 310, Receivables.

When Will the Amendments Be Effective?

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early adoption is permitted. The amendments in this Update should be applied prospectively upon adoption. Retrospective application to all prior periods presented upon the date of adoption also is permitted, but not required.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The guidance on deferred acquisition costs under IFRS is limited and is subject to significant judgment. IFRS neither prohibits nor requires the deferral of

acquisition costs, nor does it prescribe which acquisition costs are deferrable, the period and method of their amortization, or whether an insurer should present deferred acquisition costs as an asset or as a reduction in insurance liabilities. IFRS 4, *Insurance Contracts,* is an interim standard and does not address the accounting for acquisition costs because in some cases those costs were an integral part of existing models and could not be amended easily without a more fundamental review of those models. While not necessarily applicable to insurance contracts, International Accounting Standard 39, *Financial Instruments: Recognition and Measurement,* limits capitalizable transaction costs for financial instruments to incremental costs that are directly attributable to the acquisition, issuance, or disposal of a financial asset or liability. IAS 39 defines an incremental cost as one that would not have been incurred if the entity had not acquired, issued, or disposed of the financial instrument.

Under the joint project on accounting for insurance contracts, the Boards have made preliminary conclusions on the accounting for acquisition costs. Those conclusions are tentative and could change upon further deliberation of the overall insurance models proposed by the Boards.

Amendments to the *FASB Accounting Standards Codification*™

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–1312. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Amend Master Glossary term *Acquisition Costs,* with a link to transition paragraph 944-10-65-1, as follows:

Acquisition Costs

~~Costs incurred in the acquisition of new and renewal insurance contracts.~~ Costs that are ~~Acquisition costs include those costs that vary with and are primarily~~ directly related to the successful acquisition of new or renewal insurance contracts.

3. Add the term *Incremental Direct Cost of Contract Acquisition* to the Master Glossary, with a link to transition paragraph 944-10-65-1, as follows:

Incremental Direct Cost of Contract Acquisition

A cost to obtain an insurance contract that has both of the following characteristics:

a. It results directly from and is essential to the acquisition of the contract.
b. It would not have been incurred by the insurance entity had that acquisition contract transaction not occurred.

Amendments to Subtopic 944-30

4. Supersede paragraph 944-30-25-1 and add paragraphs 944-30-25-1A through 25-1B, with a link to transition paragraph 944-10-65-1, as follows:

Financial Services—Insurance—Acquisition Costs

Recognition

944-30-25-1 Paragraph superseded by Accounting Standards Update No. 2010-XX. **Acquisition costs** shall be capitalized. To associate such costs with related premium revenue, acquisition costs shall be allocated by groupings of insurance contracts consistent with the entity's manner of acquiring, servicing, and measuring the profitability of its insurance contracts. **[Content moved to paragraph 944-30-25-1B]**

944-30-25-1A Unless provided for in paragraph 944-10-65-1(d), an insurance entity shall capitalize only the following as acquisition costs:

a. **Incremental direct costs of contract acquisition** incurred in transactions with independent third parties for that contract (for implementation guidance, see paragraph 944-30-55-1).
b. The portion of the employee's total compensation and payroll-related fringe benefits directly related to time spent performing any of the following acquisition activities for a contract that has actually been acquired:
    1. Underwriting
    2. Policy issuance and processing
    3. Medical and inspection
    4. Sales force contract selling.
c. Other costs directly related to the insurer's activities in (b) that would not have been incurred by the insurance entity had that acquisition contract transaction not occurred.
d. Advertising costs that meet the capitalization criteria in paragraph 340-20-25-4.

5. Amend existing paragraph 944-30-25-1 and renumber as paragraph 944-30-25-1A, with a link to transition paragraph 944-10-65-1, as follows:

944-30-25-1B **Acquisition costs** shall be capitalized. To associate {**add glossary link**} **acquisition costs** {**add glossary link**} with related premium revenue, capitalized acquisition costs shall be allocated by groupings of insurance contracts consistent with the entity's manner of acquiring, servicing, and measuring the profitability of its insurance contracts. **[Content amended as shown and moved from paragraph 944-30-25-1]**

6.

57. Amend paragraph 944-30-25-2, with a link to transition paragraph 944-10-65-1, as follows:

944-30-25-2 Paragraph 944-720-25-2 requires that an insurance entity expense, as incurred, certain other costs.costs incurred during the period—such as those relating to investments, general administration, and policy maintenance—that do not vary with and are not primarily related to the

acquisition of new and renewal insurance contracts shall be charged to expense as incurred.

68. Amend paragraph 944-30-50-1, with a link to transition paragraph 944-10-65-1, as follows:

Disclosure

944-30-50-1 Insurance entities shall disclose all of the following in their financial statements:

a. The nature and type of **acquisition costs** capitalized
b. The method of amortizing capitalized acquisition costs
c. The amount of acquisition costs amortized for the period.

79. Amend paragraph 944-30-55-1 and its related heading and add paragraphs 944-30-55-1A through 55-1M and their related headings, with a link to transition paragraph 944-10-65-1, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

>> Acquisition Costs Incremental Direct Costs of Contract Acquisition

944-30-55-1 All of the following costs vary with and are primarily related to insurance contracts issued or renewed during the period in which the costs are incurred and shall be considered **acquisition costs**: Paragraph 944-30-25-1A(a) requires that an insurance entity capitalize **incremental direct costs of contract acquisition** incurred in transactions with independent third parties for that contract. Such costs include the following:

a. Agent and broker commissionsAn agent or broker commission or bonus for a successful contract acquisition.
b. Subparagraph superseded by Accounting Standards Update 2010-XX.Salaries of certain employees involved in the underwriting and policy issue functions
c. Medical and inspection fees for a successful contract acquisition.

>> Independent Third Parties

944-30-55-1A Independent third parties generally possess the following characteristics:

a. They are not employees of the insurer.
b. They are not receiving employee benefits of the insurer.
c. The party is not under the {**link to first definition**} **control** {**link to first definition**} of the insurer.

d. Generally, the party also would provide similar services to other entities unrelated to the insurer, and there would not be an agreement between the insurer and the party that precludes the party from providing similar services to other entities.

944-30-55-1B In determining whether an entity that provided contract acquisition-related services on behalf of the insurer could be considered an independent third party if the insurer has an ownership or equity interest in the entity, such ownership interest should be evaluated on the basis of the level of ownership and influence that could be imposed. Generally, the existence of an ownership interest indicates a relationship that would not qualify as an independent third party. A nominal passive investment from the standpoint of both the insurer and the provider of service probably would not affect the provider's independence.

944-30-55-1C If an entity utilizes a third party for contract acquisitions and the third party is not considered an independent third party for several reasons but also is not an employee of the entity, the entity should defer those costs directly related to specified activities that can be determined to meet the criteria in paragraph 944-30-25-1A(b) for acquisition costs under the definition of that term as long as those costs would not have been incurred by the insurance entity had that acquisition contract transaction not occurred.

>> Other Contract Acquisition Costs

944-30-55-1D Examples of other costs directly related to the insurer's activities in paragraph 944-30-25-1A(b) that would not have been incurred by the insurance entity had that acquisition contract transaction not occurred include all of the following:

a. Reimbursement of costs for air travel, hotel accommodations, automobile mileage, and similar costs incurred by personnel relating to the specified activities
b. Costs of itemized long-distance telephone calls related to contract underwriting
c. Reimbursement for mileage and tolls to personnel involved in on-site reviews of individuals before the contract is executed.

944-30-55-1E Paragraph 944-720-55-2 specifies that equipment costs (for example, an insurer's data processing equipment dedicated to acquiring insurance contracts), depreciation, and other general overhead must be charged to expense as incurred. Those costs do not meet the criteria for deferral as acquisition costs under the definition of that term because they would have been incurred whether or not a contract was acquired.

> > > Other Contract Acquisition-Related Costs

944-30-55-1F Costs for software dedicated to contract acquisition are not eligible for deferral as deferred acquisition costs under the definition of that term.

Such costs are not other costs related to those activities that would not have been incurred but for that contract under the definition of that term.

944-30-55-1G Payroll-related fringe benefits include any costs incurred for employees as part of the total compensation and benefits program. Examples of such benefits include all of the following:

a. Payroll taxes
b. Dental and medical insurance
c. Group life insurance
d. Retirement plans
e. 401(k) plans
f. Stock compensation plans, such as stock options and stock appreciation rights
g. Overtime meal allowances.

944-30-55-1H Bonuses based on successful acquisition or renewal of contracts that are paid to employees involved in contract acquisition activities are partially deferrable as acquisition costs under the definition of that term. Bonuses are part of an employee's total compensation. The portion of the employee's total compensation that may be deferred as acquisition costs is the portion that is directly related to time spent on the activities listed under the definition of that term and results in the origination of an insurance contract.

944-30-55-1I If compensation for an employee traditionally paid by salary or hourly wage is switched wholly or partially to commissions on successful contract acquisition or renewal, such costs would be partially deferrable as acquisition costs under the definition of that term. As specified in the preceding paragraph, only the portion of the employee's total compensation directly related to time spent on activities under the definition of that term for successful contracts would be deferred. Commission-based compensation arrangements between an insurer and its employees may be similar to arrangements an insurer may have with independent third parties, such as sales agents or brokers. However, when acquisition activities are performed by the insurer's employees, the insurer must allocate compensation costs applicable to the activities listed in the definition of acquisition costs on the basis of the portion of time spent by employees. An allocation of the employees' total compensation between contract acquisition and other activities is made so that only those costs associated with those acquisition activities listed under the definition of that term are deferred for successful contracts, even if commissions are 100 percent of such compensation and are based solely on successfully acquired contract transactions.

> > Cost Determination

944-30-55-1J This Subtopic does not specify how costs are to be determined but rather what costs must be deferred. In many instances, standard costing may

be used to estimate the costs to be deferred in accordance with this Subtopic. For certain contracts, the cost of acquisition may be similar and standard costing may be appropriate for those contracts, while other contracts may be of such a nature that costs must be identified separately. Insurers may use any one or a combination of methods that will provide adequate information to report financial results in accordance with this Subtopic. Development of a standard costing system will require periodic analysis of variances and, if necessary, adjustment of standard costing estimates. Possible standard costing methods that may be used to measure costs applicable to transactions that have occurred, include standard costs, actual costs, job process costs (for example, homogeneous policies), or job order costs (for example, specific contracts).

944-30-55-1K The successful-efforts accounting notion utilized at an entity-wide level may result in a standard costing system that does not accurately reflect the amount of costs that may be deferred and amortized under this Subtopic. Successful acquisition efforts can be determined as a percentage of each function (for example, application, underwriting, and medical and inspection) and may be based on the percentage, adjusted for idle time and time spent on activities for which the related costs cannot be deferred, of successful and unsuccessful efforts determined for each function.

944-30-55-1L All other contract acquisition-related costs, including costs related to activities performed by the insurer for soliciting potential customers (except direct-response advertising capitalized in accordance with paragraph 944-30-25-1A(d)), market research, training, and administration, should be charged to expense as incurred. Employees' compensation and fringe benefits related to those activities, unsuccessful contract acquisition efforts, and idle time should be charged to expense as incurred. Administrative costs, rent, depreciation, and all other occupancy and equipment costs are considered indirect costs and should be charged to expense as incurred.

944-30-55-1M The portion of total compensation of executive employees that relates directly to the time spent approving successful contracts may be deferred as acquisition costs under the definition of that term. For example, the amount of compensation allocable to time spent by members of a contract approval committee is a component of acquisition costs.

Amendments to Subtopic 944-720

8~~10~~. Amend paragraphs 944-720-25-1 through 25-2, with a link to transition paragraph 944-10-65-1, as follows:

Financial Services—Insurance—Other Expenses

Recognition

944-720-25-1 Unless provided for in paragraph 944-10-65-1(d), Paragraph 944-30-25-1 paragraph 944-30-25-1B states that costs that are requires that an insurance entity capitalize certain **acquisition costs** related to successful contractsshall be capitalized.

944-720-25-2 Other costs incurred during the period—such as those relating to investments, general administration, policy maintenance, product development expenses, market research expenses, and general overhead—that do not vary with and are not primarily related to the acquisition of new and renewal insurance contracts shall be charged to expense as incurred.An insurance entity shall expense, as incurred, any of the following costs:

a. An acquisition-related cost that cannot be capitalized in accordance with paragraph 944-30-25-1 (for implementation guidance, see paragraph 944-720-55-1)
b. An indirect cost (for implementation guidance, see paragraph 944-720-55-2).

911. Add paragraphs 944-720-55-1 through 55-2 and their related headings, with a link to transition paragraph 944-10-65-1, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > Certain Acquisition-Related Costs

944-720-55-1 This implementation guidance addresses paragraph 944-720-25-2(a), which requires that an insurance entity expense, as incurred, any acquisition-related cost that cannot be capitalized in accordance with paragraph 944-30-25-1B. Such costs include costs of all of the following:

a. Soliciting potential customers (except direct-response advertising capitalized in accordance with paragraph 944-30-25-1A(d))
b. Market research
c. Training
d. Administration
e. Unsuccessful acquisition or renewal efforts (except direct-response advertising capitalized in accordance with paragraph 944-30-25-1A(d))
f. Product development.

> > Indirect Costs

944-720-55-2 This implementation guidance addresses paragraph 944-720-25-2(b), which requires that an insurance entity expense, as incurred, any indirect cost. Such costs include all of the following:

a. Administrative costs
b. Rent

c. Depreciation
d. Occupancy costs
e. Equipment costs
f. Other general overhead.

1012. Add paragraph 944-10-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2010-XX, *Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*

944-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-XX, *Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts:*

a. An entity shall apply the pending content that links to this paragraph in either of the following ways:
   1. On a prospective basis in fiscal years beginning after December 15, 2011, and interim periods within those fiscal years. If an entity applies the pending content that links to this paragraph prospectively, an entity shall disclose either of the following instead of the disclosure required by paragraph 250-10-50-1(b)(2) in the period of adoption:
      i. The amount of **acquisition costs** that would have been capitalized during the corresponding period immediately preceding adoption as if the guidance in the pending content that links to this paragraph had been applied during that period compared with the amount previously capitalized during that period.
      ii. The amount of acquisition costs capitalized during the period of adoption compared with the amount of acquisition costs that would have been capitalized during the period if the entity's previous policy had been applied during that period.
   2. On a retrospective basis to all prior periods as described in paragraphs 250-10-45-6 through 45-7. If an entity applies the pending content that links to this paragraph retrospectively, an entity is not required to make the disclosure required by paragraph 250-10-50-1(b)(2) for the period of adoption.
b. Earlier application of the pending content that links to this paragraph is permitted.
c. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period the entity adopts the pending content that links to this paragraph except as noted above for paragraph 250-10-50-1(b)(2).
d. If the application of the pending content would result in the capitalization of **acquisition costs** that had not previously been

capitalized by the entity before adoption of the pending content, the entity may elect not to capitalize those types of costs.

11. Amend paragraph 944-30-00-1 as follows:

944-30-00-1 The following table identifies the changes made to this Subtopic. ~~No updates have been made to this subtopic.~~

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
Acquisition Costs	Amended	2010-XX	08/XX/2010
Incremental Direct Cost of Contract Acquisition	Added	2010-XX	08/XX/2010
944-30-25-1	Superseded	2010-XX	08/XX/2010
944-30-25-1A	Added	2010-XX	08/XX/2010
944-30-25-1B	Added	2010-XX	08/XX/2010
944-30-25-2	Amended	2010-XX	08/XX/2010
944-30-50-1	Amended	2010-XX	08/XX/2010
944-30-55-1	Amended	2010-XX	08/XX/2010
944-30-55-1A through 55-1M	Added	2010-XX	08/XX/2010

12. Add paragraph 944-720-00-1 as follows:

944-720-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
Acquisition Costs	Amended	2010-XX	08/XX/2010
944-720-25-1	Amended	2010-XX	08/XX/2010
944-720-25-2	Amended	2010-XX	08/XX/2010
944-720-55-1	Added	2010-XX	08/XX/2010
944-720-55-2	Added	2010-XX	08/XX/2010

13. Amend paragraph 944-10-00-1 as follows:

944-10-00-1 The following table identifies the changes made to this Subtopic. ~~No updates have been made to this subtopic.~~

Paragraph Number	Action	Accounting Standards Update	Date
Acquisition Costs	Amended	2010-XX	08/XX/2010
944-10-65-1	Added	2010-XX	08/XX/2010

Add Board vote when ready.

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information and Conclusions

BC2. As a result of the diversity in practice relating to the interpretation of which costs qualify as acquisition costs within the insurance industry, certain stakeholders initially raised the question of whether advertising costs meet the definition of acquisition costs. However, interpretation of the phrase *vary with and are primarily related to* in the definition of acquisition costs raised broader conceptual issues that also applied to other types of costs; therefore, the Task Force decided that the resolution of this Issue should not be limited to advertising costs.

BC3. At the November 19, 2009 EITF meeting, the Task Force reached a consensus-for-exposure on EITF Issue No. 09-G, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts." A proposed Accounting Standards Update (proposed Update) was issued on December 17, 2009, with a comment period that ended on February 12, 2010. Twenty comment letters were received on the proposed Update. Additionally, a Working Group was formed to assist the staff in advising the Task Force on the effective date and transition questions. The Working Group included preparers and auditors of life insurance and property and casualty insurance entities, a life insurance industry association representative, and an observer from the Securities and Exchange Commission. Several Task Force members also observed and participated in the meeting. The Working Group met on May 13, 2010.

BC4. In discussing this Issue, some Task Force members indicated that, in their view, only costs that are both direct and incremental and are incurred as a result of obtaining new or renewal contracts should be considered acquisition costs, while other members preferred expensing all contract acquisition costs. Other

Task Force members favored aligning the nature of capitalizable costs in contract acquisition activities with those capitalizable costs of loan origination activities in Topic 310. That model encompasses both direct and incremental costs and certain additional direct costs incurred to complete successful contract acquisitions or renewals.

BC5. Some Task Force members noted that the loan origination model does not permit capitalization of costs relating to unsuccessful loan efforts, which, if applied by insurance companies, would result in a significant change from current practice. Other Task Force members questioned the conceptual basis for how costs relating to unsuccessful contract acquisition efforts could be considered to provide a future economic benefit to warrant asset recognition.

BC6. The Task Force concluded that acquisition costs should include only those costs that are directly related to the acquisition or renewal of insurance contracts by applying a model similar to the accounting for loan origination costs in Subtopic 310-20 and that costs related to unsuccessful contract efforts should be expensed as incurred. The Task Force also decided that incremental direct costs of contract acquisition incurred in transactions with independent third parties and that certain additional direct costs incurred by the insurer to complete successful contract acquisitions or renewals should be capitalized.

BC7. During the deliberations of this Issue, the Task Force discussed how an insurance entity should incorporate future cash flows attributable to advertising costs in its premium deficiency analysis and assessment of the realizability of direct-response advertising. The Task Force affirmed its consensus-for-exposure that advertising costs should be capitalized only if the criteria for capitalizing such costs in accordance with the direct-response advertising guidance in Topic 340 were met. The Task Force concluded that after those criteria are met, the direct-response advertising costs should be included as deferred acquisition costs for classification, subsequent measurement, and premium deficiency purposes in accordance with Topic 944.

Effective Date and Transition

BC8. The Task Force decided that the amendments in this Update should be effective for fiscal years beginning on or after December 15, 2011. The Task Force decided that early application of the amendments should be permitted.

BC9. As a result of the feedback provided by the Working Group, the Task Force supported a deferral of the effective date of the originally proposed Update. The Task Force believes that deferring the proposed effective date for one year will provide insurance entities with sufficient time to implement the requirements of the proposed Update and to complete any necessary time studies or cost analyses, make requisite system changes, and update their

internal control processes to integrate any changes into their pre-existing deferred acquisition cost internal controls.

BC10. The Task Force concluded that if, as a result of applying the guidance in this Update, entities are required to capitalize more costs than are being capitalized currently, those entities should not be required to capitalize the additional costs. The Task Force did not believe it would be beneficial for insurers to incur costs to develop new systems to capitalize additional acquisition costs, particularly if they may have to expense all acquisition costs as part of the Board’s project on insurance contracts.

BC11. The Task Force decided to require prospective application upon the date of adoption and concluded that retrospective application is also permitted, but not required. The Task Force also decided to require certain transition disclosures. The Task Force concluded that if an entity chooses to apply the guidance in this Update prospectively, the entity would be required to disclose one of the following disclosures instead of the disclosures required by paragraph 250-10-50-1(b)(2) in the period of adoption:

a. The amount of acquisition costs that would have been capitalized during the corresponding period immediately preceding adoption as if the guidance in the pending content that links to this paragraph had been applied during that period compared with the amount previously capitalized during that period.
b. The amount of acquisition costs capitalized during the period of adoption compared with the amount of acquisition costs that would have been capitalized during the period if the entity's previous policy had been applied during that period.

BC12. The Task Force also concluded that if an entity chooses to apply the guidance retrospectively, the entity would not be required to disclose the effect of the change in the current period as required by paragraph 250-10-50-1(b)(2). However, the other disclosures required by paragraphs 250-10-50-1 through 250-10-50-3 would be required under both prospective and retrospective application.

Benefits and Costs

BC13. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and

other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC14. The Task Force anticipates that entities will incur incremental costs to implement the amendments in this Update. The most significant incremental costs are expected to be associated with allocating costs between successful efforts and unsuccessful efforts if entities had not previously performed such an analysis or do not currently capture information in that manner. However, the Task Force believes that the improvements to financial reporting, such as a reduction in the diversity in practice in the types of costs capitalized and the elimination of costs that have been capitalized relating to unsuccessful efforts, are in excess of costs to implement the new guidance. In deliberating this Issue, the Task Force also considered the tentative conclusions reached by the Boards as part of their joint project on insurance contracts. Specifically, the Task Force considered that the guidance from that project, once finalized, is not currently expected to be effective before 2014. As such, the Task Force believes that by clarifying the acquisition costs that can be deferred now, the amendments in this Update improve current GAAP by providing a clearer definition of a qualifying capitalizable acquisition cost and, therefore, limit the significant diversity in practice that has developed in this area, particularly as it relates to the capitalization of costs related to unsuccessful acquisition efforts, and that those benefits justify the costs of implementing the requirements of the Update.

Amendments to the XBRL Taxonomy

The following elements or modifications to existing elements are proposed additions to the XBRL U.S. GAAP Financial Reporting Taxonomy. They reflect the amendments to the disclosure and presentation requirements of the Accounting Standards Codification and would be used in association (tagged) with the appropriate reported values in the SEC filer XBRL database. (Elements that currently exist in the 2009 taxonomy are marked with an asterisk* and have been **bolded.** If an existing element was modified, it has been marked to reflect any changes.)

Standard Label[†]	Definition	Codification Reference
Type of Deferred Policy Acquisition Costs	Describes the type of costs that are included as deferred policy acquisition costs. Acquisition costs are directly related to the successful acquisition of new and renewal insurance contracts.	944-30-50-1(a) 944-30-55-1
Deferred Policy Acquisition Costs Disclosure*	Describes the nature, type, and amount of capitalized costs incurred to write or acquire insurance contracts, the basis for and methodology for capitalizing such costs, the accounting for such deferred acquisition costs (DAC) when modifications or internal replacements of related insurance contracts occur and the effect on results of operations, and the methodology and amount of amortization.	944-30-50-1 944-210-S99-1 944-30-50-4
Deferred Policy Acquisition Costs Net*	The unamortized portion as of the balance sheet date of capitalized policy acquisition costs ~~that vary with and are primarily related to~~	944-210-S99-1 944-30-45-1 944-30-55-1

[†]The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.

Standard Label[†]	Definition	Codification Reference
	~~the acquisition of new and renewal insurance contracts and coverages~~.	
Nature of Deferred Policy Acquisition Costs*	Describes the nature of costs incurred in the successful acquisition of new and renewal insurance contracts~~, including those costs that vary with and are primarily related to the acquisition of new contracts (for example, agent and broker commissions, certain underwriting and policy issue costs, and medical and inspection fees)~~.	944-210-S99-1 944-30-55-1 944-30-50-1(a)
Capitalization of Deferred Policy Acquisition Costs, Policy*	Describes an insurance entity's accounting policy for deferred policy acquisition costs, including the nature, type, and amount of capitalized costs incurred to write or acquire insurance contracts, and the basis for and methodologies applied in capitalizing and amortizing such costs.	235-10-50-3 944-30-50-1
Deferred Policy Acquisition Costs [Text Block]*	This element may be used as a single block of text to encapsulate the entire disclosure, including data and tables, pertaining to the nature, type, and amount of capitalized costs incurred to write or acquire insurance contracts, the basis for and methodology for capitalizing such costs, the accounting for such deferred acquisition costs (DAC) when modifications or internal replacements of related insurance contracts occur, the effect on results of operations,	944-30-50-1 944-210-S99-1 944-30-50-4

Standard Label†	Definition	Codification Reference
	and the methodology and amount of amortization.	
Deferred Policy Acquisition Costs and Present Value of Future Profits, Disclosure*	Describes the nature, type, and amount of costs ~~incurred in~~that relate to the successful acquisition of new and renewal insurance contracts~~, including those costs that vary with and are primarily related to the acquisition of new contracts (for example, agent and broker commissions, certain underwriting and policy issue costs, and medical and inspection fees),~~ and in connection with the purchase of a life insurance company, describes the nature and amounts of the present value of future profits (PVFP) of estimated net cash flows embedded in the existing long-duration contracts of the acquired entity, reconciles the carrying value from the beginning to the end of the period, and provides other information pertinent to an understanding of PVFP, which is also known as value of business acquired, or VOBA.	944-30-50-1(a) 944-20-S99-2
Deferred Policy Acquisition Costs and Present Value of Future Profits, Additions*	Additions during the period in (a) capitalized policy acquisition costs~~ that vary with and are primarily related to the acquisition of new and renewal insurance contracts and coverages~~, and (b) capitalized present value of future profits (also known as value of business acquired).	944-20-S99-2(2)
Supplemental	Amount of deferred policy	944-235-S99-3

Standard Label†	Definition	Codification Reference
Information for Property, Casualty Insurance Underwriters, Deferred Policy Acquisition Costs*	acquisition cost related to property-casualty insurance policy written.~~ Policy acquisition costs are costs that vary with and are primarily related to the acquisition and renewal of insurance contracts during the period (for example, commissions, salaries of underwriting personnel, inspection fees).~~	
Deferred Policy Acquisition Costs and Present Value of Future Profits*	The sum of the unamortized portion as of the balance sheet date of (a) capitalized policy acquisition costs~~ that vary with and are primarily related to the acquisition of new and renewal insurance contracts and coverages~~, and (b) capitalized present value of the future profits (also known as value of business acquired).	944-20-S99-2(2) 944-210-S99-1 944-30-50-1(a)
Supplemental Information for Property, Casualty Insurance Underwriters, Amortization of Deferred Policy Acquisition Costs*	Amount of amortization expense on deferred policy acquisition costs.~~ Deferred policy acquisition costs are costs that vary with and are primarily related to the acquisition or renewal of insurance contracts during the period (for example, commissions, salaries of underwriting personnel, inspection fees).~~	944-235-S99-3