Summary of Issues for the September 16, 2010 EITF Meeting*
Issues Arranged in Proposed Agenda Order

AGENDA ISSUE:	ADMINISTRATIVE MATTERS -New Issues (EITF Agenda Report)	PROPOSED TIME: 8:30-8:45 STAFF: Brower

AGENDA ISSUE:	Issue No. 09-H "Health Care Entities: Revenue Recognition "	PROPOSED TIME: 8:45 – 9:45 STAFF: Hildebrand / Cadambi

ISSUES/VIEWS	MEETING NOTES
Document: Issue Summary No. 1, Supplement No. 2 **Background** 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. Amounts charged to patient accounts prior to the application of policy or contractual discounts generally are recorded as gross revenue in the accounting records but are adjusted downward in determining net revenue. For billings to self-pay patients, it has been industry practice for health care entities to record revenue at the gross charge along with a relatively high bad debt provision. The bad debt provision is generally classified as an expense and not as a reduction to revenue. **Prior EITF Discussion** At the July 29, 2010 EITF meeting, the Task Force discussed the Working Group members' observations and concerns on the following three approaches: ***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. 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.	

*** This summary of the Issues was prepared for the convenience of the Task Force and others and should not be considered a substitute for the complete issue summaries.**

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.

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 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.

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, with a focus on a health care entity's revenue recognition and bad-debt reserve policy for its various sources of revenue.

Accounting Issues and Alternatives

Issue 1—How a health care entity should consider collectibility in determining the timing and amount of revenue recognition.

Question 1—Does the Task Force want to pursue a consensus for exposure that clarifies the method by which a heath care entity recognizes revenue (Approaches A, B, or C) or does the Task Force prefer requiring incremental disclosures as opposed to changing a health care entity's revenue recognition practice (Approach D)?

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.*

Approach D: *Pursue incremental disclosures. A health care entity shall disclose all of the following:*

a. Its policy for considering collectability in the timing and amount of revenue and bad debt recognized.

b. A tabular reconciliation, describing the material adjustments between gross and net patient revenue, by major payor source of revenue. Major payor sources of revenues shall be identified by the entity and be consistent with how the entity manages its business.

c. A tabular reconciliation, describing the material activity in the allowance for doubtful accounts for the period, by major payor source of revenue. The provision for bad debt related to services provided in the fiscal year shall be separately shown.

Recurring Disclosure

If Approach A, B, or C is selected, the staff does not believe that any additional recurring disclosures would be required. If Approach D is selected, the disclosures suggested above would be provided on an annual and interim basis.

Effective Date and Early Adoption

The staff will ask the Task Force to deliberate the effective date after receiving feedback during the exposure period of this Issue. The staff believes that early adoption should be permitted.

Transition Method

Approaches A or B: If a consensus is reached on either Approach A or B, the staff believes that there are two transition alternatives; a cumulative catch-up adjustment as of the beginning of the period of initial adoption or one based on retrospective application. If a consensus is reached on either Approach A or B, the staff recommends that it should be applied through a cumulative catch-up adjustment at the beginning of the period of initial adoption, rather than retrospectively because of the complexities and uncertainties associated with that approach.

Approach C: If a consensus is reached on Approach C, the staff recommends that it should be applied on a retrospective basis, which was unanimously supported by the Working Group for comparability reasons.

Approach D: If a consensus is reached on Approach D, the staff recommends that it should be applied on a retrospective basis for comparability reasons. The staff also recommends a practicability exception to the requirement of allocating the provision for bad debts related to current year services separately from prior year services.

Transition Disclosures

If the Task Force concludes that the transition of this Issue should be applied through a cumulative catch-up adjustment at the beginning of the period of initial adoption, the staff believes comparability concerns between periods could be addressed through enhanced transition disclosures, such as the amount of revenue and bad debt expense that would have been recognized in the period of adoption had the entity not adopted the new standard. However, if that transition method is not selected by the Task Force, the staff recommends that the Task Force not require any additional disclosures other than the requirements in Section 250-10-50.

AGENDA ISSUE:	**Issue No. 10-C** "Reporting Loans to Participants by Defined Contribution Pension Plans"	**PROPOSED TIME:** 9:45 – 10:15 **STAFF:** Gonzales / Yang

ISSUES/VIEWS

Document: Issue Summary No. 1, Supplement No. 1

MEETING NOTES

Background

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. 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.

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. 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 constituents believe that under Topic 820, Fair Value Measurements and Disclosures, plans cannot assert that the outstanding principal balance of a loan approximates its fair value, and that the valuation principles of Topic 820 need to be applied. Other constituents believe that the subjectivity of the fair value assumptions would result in information that is not comparable, reliable, or decision useful.

Prior EITF Discussion

At the July 29, 2010 EITF meeting, the Task Force reached a consensus-for-exposure that participant loans should be accounted for as note receivables from participants rather than as investments and should be measured at their unpaid principal balance plus accrued but unpaid interest. Additionally, the Board ratified the consensus-for-exposure and approved the issuance of a proposed Accounting Standards Update (proposed Update) for public comment at the July meeting.

Recurring Disclosures

The staff does not believe additional recurring disclosures should be required by this Issue.

Comment Letters

A proposed Update for this Issue was posted to the FASB website on August 18, 2010, with a comment period that ended on September 7, 2010. Nineteen comment letters were received on the proposed Update. One comment letter respondent requested clarification about whether participant loans would be subject to the disclosure requirements of Update 2010-20—Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.

Transition, Effective Date, and Early Adoption

The staff recommends that the proposed Update be effective retrospectively for periods ending after December 15, 2010, with early adoption allowed.

Questions for the Task Force

Question 1—The staff does not recommend requiring any additional disclosures. Does the Task Force agree with that recommendation?

Question 2—The staff recommends that the Task Force exempt participant loans from the disclosure requirements in Update 2010-20. Does the Task Force agree with that recommendation? **Question 3—The staff recommends that the proposed Update be effective retrospectively for periods ending after December 15, 2010, with early adoption allowed. Does the Task Force agree with that recommendation?**	

AGENDA ISSUE:	**Issue No. 09-G** "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts"	**PROPOSED TIME:** 10:30 – 11:15 **STAFF:** Brower / Breen

ISSUES/VIEWS	MEETING NOTES

ISSUES/VIEWS

Document: Issue Summary No. 1, Supplement No. 4

Background

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.

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.

The accounting policies for deferred acquisition costs (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. As a result of the diversity in practice, 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.

Scope

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

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.

The Task Force also clarified that this definition would not include any costs related to unsuccessful contract acquisition efforts. 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.

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 required prospective application upon the date of adoption. Retrospective application to all prior periods upon the date of adoption was also permitted, but not required. The transition disclosures in paragraph 250-10-50-1 through 50-3 were required.

At the March 18, 2010 EITF meeting, the Task Force discussed the 20 comment letters received on the proposed Update. The Task Force affirmed 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 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 that time.

Task Force members discussed a comment received from a preparer who believed that the guidance in the proposed Update would require some property and casualty insurers to defer more costs under the revised model than what was currently being deferred in practice under the current model for DAC. Some Task Force members believed that if, as a result of the proposed Update, entities were required to capitalize more costs than were 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. The Task Force tentatively decided that entities should not be required to capitalize additional costs as a result of applying this Issue.

The Task Force also affirmed 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.

The Task Force also discussed concerns raised by respondents 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.

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. 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.

The Task Force also discussed whether third-party medical and inspection fees should be deferrable. The Task Force analogized those costs to third-party appraisal fees that are currently deferred in practice under the loan origination model 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 then 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 Subtopic 340-20 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.

The Task Force discussed whether to re-expose this Issue in light of the decisions reached at the July meeting. The Task Force decided not to re-expose the Issue 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. Additionally, the staff incorporated implementation guidance into the amendments of the final Update to help constituents answer various types of implementation questions.

Comment Letters

On August 19, 2010, the staff posted the staff draft to the FASB website. The draft reflected the cumulative, tentative conclusions reached by the Task Force culminating with its meeting on July 29, 2010. The staff draft did not formally seek comments; however, it welcomed input from interested parties. As a result, four comment letters were received.

Transition Method and Transition Disclosures

The Task Force affirmed as a consensus its consensus-for-exposure that requires prospective application upon the date of adoption and permits retrospective application. 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.

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).

Effective Date and Early Adoption

The amendments in the final Update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The staff recommends that the Task Force to require that early adoption only be permitted as of the beginning of the fiscal year.

Question 1—Whether the Task Force agrees with the staff recommendation to affirm its cumulative, tentative conclusions on this Issue as a final consensus. If not, what modifications does the Task Force want to make?

Question 2—Whether the Task Force agrees with the staff recommendation to require that early adoption only be permitted as of the beginning of the fiscal year?

AGENDA ISSUE:	Issue No. 10-A "How the Carrying Amount of a Reporting Unit Should Be Calculated When Performing Step 1 of the Goodwill Impairment Test"	PROPOSED TIME: 11:15 – 12:00 STAFF: Worshek / Couch

ISSUES/VIEWS	MEETING NOTES
Document: Issue Summary No. 2 with Working Group Report No. 2, Revised	

ISSUES/VIEWS

Document: Issue Summary No. 2 with Working Group Report No. 2, Revised

Scope

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

Prior EITF Discussion

At the July 29, 2010 EITF meeting, the staff presented Views A through E and asked Task Force members to clarify whether they preferred an approach that more narrowly addressed these anomalous situations or one that more broadly reconsidered how the carrying amount of a reporting unit is calculated when performing Step 1 of the test.

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.

Accounting Issues and Alternatives

Issue 1: How the carrying amount of a reporting unit should be calculated when performing Step 1 of the goodwill impairment test.

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 zero or negative carrying amount.

View A': Same as View A above; however, require reporting entities with a single reporting unit to apply the assignment of assets and liabilities to the reporting unit in the same way in which it is applied for reporting entities with multiple reporting units.

View A'': Same as View A except that the requirement to perform Step 2 is only triggered if there are qualitative factors such as those in paragraph 350-20-35-30 that indicate that it is more likely than not that a goodwill impairment exists.

Recurring Disclosures

The staff does not believe that this Issue should result in incremental recurring disclosures regarding goodwill or the impairment of goodwill.

Transition Method and Disclosures

As a result of the views of the Working Group and the outreach performed, the staff recommends a cumulative-effect adjustment to beginning retained earnings upon adoption, which is consistent with how Statement 142, *Goodwill and Other Intangible Assets*, was adopted.

Issue 2: What the transition method for this Issue should be.
Assuming the Task Force reaches a consensus for View A", the Working Group discussed various adoption transition approaches. Primarily based on those discussions, the staff developed the following three views for the Task Force to consider.

View A: Require reporting entities to apply the new requirements in conjunction with their next annual impairment test, which should include an evaluation of whether the triggering events described in paragraph 350-20-35-30 have occurred since the date of their last annual impairment test. However, the existence of triggering events between the date of adoption and the subsequent annual impairment test would not result in an interim impairment test to be performed.

View B: Require reporting entities to apply the new requirements if a triggering event as described in paragraph 350-20-35-30 has occurred since the last annual goodwill impairment test through the date of adoption. If such a triggering event has not occurred during that period, reporting entities would be required to apply the new requirements prospectively from the period of adoption. The existence of triggering events between the date of adoption and the subsequent annual impairment test would result in an interim impairment test to be performed.

View C: Require reporting entities to perform Step 2 of the goodwill impairment test for reporting units with negative or zero carrying amounts upon adoption.

Issue 3: What the effective date of this Issue should be.
Working Group members agreed that if a final accounting standard update was issued by mid to late December 2010, a January 1, 2011 effective date should be operational for calendar year-end public companies. Accordingly, the staff recommends that a final accounting standard update should be effective for all interim and annual reporting periods beginning after December 15, 2010.

Issue 4: Whether the effective date of this Issue should be the same for public and nonpublic reporting entities.
Some staff members believe that the effective date for public and nonpublic companies should be the same. However, other staff members support an effective date for nonpublic entities for interim and annual reporting periods beginning after December 15, 2011.

AGENDA ISSUE:	**Issue No. 10-E** "Accounting for Deconsolidation of a Subsidiary That Is In-Substance Real Estate"	**PROPOSED TIME:** 1:00 – 2:00 **STAFF:** Cadambi / Farber

ISSUES/VIEWS	MEETING NOTES
Document: Issue Summary No. 1	

ISSUES/VIEWS

Document: Issue Summary No. 1

Background

It is a common business practice for an investor to establish a single-purpose entity that is capitalized, in whole or in part, with nonrecourse debt, to purchase commercial real estate. The investor will frequently own all of the equity interests of the entity and will consolidate the entity because that investor has a controlling financial interest. The nonrecourse debt may provide the lender with certain protective rights (for example, approvals of significant leases) over the term of the loan and the lender may have additional rights upon an event of default. In the event that the entity defaults on the nonrecourse indebtedness, the lender may take possession of the real estate or a receiver may be appointed by the court to ensure that rents are collected for the lender's benefit. Granting the lender possession or appointing a receiver commonly occurs in foreclosure proceedings. In addition, the single-purpose entity may be placed or forced into bankruptcy pursuant to either Chapter 11—Reorganization, or Chapter 7—Liquidation, of Title 11—Bankruptcy, of the U.S. Code. In such instances, the bankruptcy court may appoint either the lender or a third-party to act as the trustee of the entity. Either event may limit the investor's ability to control the entity and therefore deconsolidation may be appropriate.

When real property is financed with nonrecourse debt, in the event of deterioration of the property's cash flow or value, the investor may decide to allow the borrower to default on the borrowing and thereby transfer the property to the lender in full satisfaction of its obligation under the note. In that event, title to the property is conveyed to the lender, and the entity has no further obligation to the lender. For example, assume a single-purpose entity borrows $1 million to purchase real property on a non-recourse basis. Several years later, the property has a fair value of $600 thousand, while the balance due to the lender is $800 thousand. The entity defaults on its debt obligation and transfers the property to the lender in full satisfaction of the loan. In current market conditions, it is increasingly common for real estate to have a current fair value that is less than the unpaid principal balance of the related nonrecourse debt. As a result, a growing number of owners and investors are voluntarily or involuntarily defaulting on their debt.

As discussed in paragraphs 970-323-40-1 and 976-10-15-4, sales of ownership interests in entities that are "in-substance real estate" should be evaluated under the provisions of Subtopic 360-20 as the sale of (the underlying) real estate. This Issue does not address whether an entity should be considered to be "in-substance real estate." Rather, this Issue assumes that the subsidiary (for example, a single-purpose entity that owns real estate) has been determined to be in-substance real estate.

This Issue seeks to resolve the differing views in practice about whether the guidance in Subtopic 360-20, Property, Plant, and Equipment—Real Estate Sales (formerly issued as FASB Statement No. 66, *Accounting for Sales of Real Estate*), applies to deconsolidation of a subsidiary that is in-substance real estate.

Scope

This Issue applies to all reporting entities that are required to deconsolidate a subsidiary that is in-substance real estate.

Accounting Issue and Alternatives

Whether Subtopic 360-20 applies to the derecognition of real estate in the consolidated financial statements of a reporting entity that is required to deconsolidate a subsidiary that is in substance real estate other than as a result of a sale or transfer of an ownership interest in the subsidiary.

View A: *A reporting entity is required to apply the guidance in Subtopic 360-20 to determine whether to derecognize real estate owned by a former in-substance real estate subsidiary that the reporting entity is required to deconsolidate.*

View B: *A reporting entity is <u>not</u> required to apply the guidance in Subtopic 360-20 to determine whether to derecognize real estate owned by an in-substance real estate subsidiary that the reporting entity is required to deconsolidate for reasons other than a sale or transfer of an ownership interest in the subsidiary.*

Recurring Disclosures

The staff does not believe additional recurring disclosures should be required by this Issue. Entities would need to comply with either the sales of real estate or deconsolidation disclosures as applicable.

Transition Method and Disclosures

Alternative A: *Entities should recognize the effect of the change as a change in accounting principle through retrospective application to all relevant prior periods beginning from the fiscal year in which Subtopic 810-10 was initially adopted. Retained earnings would be adjusted for the earliest period presented.*

Alternative B: *Entities should apply this Issue on a prospective basis to evaluate whether to derecognize real estate owned by an in-substance real estate subsidiary that the reporting entity is required to deconsolidate. Prior periods would not be adjusted even if the reporting entity has continuing involvement with a previously deconsolidated in-substance real estate subsidiary.*

Alternative C: *Upon adoption of this Issue, entities should apply this Issue by recognizing or derecognizing, at the date of adoption, real estate of in-substance real estate entities that would have been affected by the consensus on this Issue had the Task Force consensus been applied when the events occurred. An entity would recognize the cumulative effect of applying this consensus as an adjustment to beginning retained earnings of the period of adoption.*

The staff recommends that the Task Force require companies to apply the disclosure requirements in Section 250-10-50 for an accounting change required by this Issue. Additionally, the staff recommends that the Task Force not require any additional disclosures other than the requirements in paragraphs 250-10-50-1 to 250-10-50-3.

Effective Date

The staff recommends that the Task Force require this Issue to be effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2010, and to ask constituents whether they believe that the proposed amendments can be efficiently implemented for fiscal years beginning on or after December 15, 2010. If not, the staff plans to ask for a recommended effective date from constituents.

AGENDA ISSUE:	**Issue No. 10-G** "Disclosure of Supplementary Pro Forma Information for Business Combinations"	**PROPOSED TIME:** 2:00 – 3:00 **STAFF:** Breen / Catalano

ISSUES/VIEWS	MEETING NOTES
Document: Issue Summary No. 1	

Background

Topic 805, *Business Combinations*, requires public entities to disclose pro forma information for business combinations that occurred during the reporting period. Specifically, paragraph 805-10-50-2(h) requires public entities to disclose the following information (in part):

> The revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period (supplemental pro forma information)
>
> If comparative financial statements are presented, the revenue and earnings of the combined entity for the comparable prior reporting period as though the acquisition date for all business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period (supplemental pro forma information).

Those disclosure requirements are also applicable for interim reporting periods, and are required to be presented in the financial statements for as long as the period of acquisition is included in the financial statements. The disclosures under Topic 805 are required to be presented on an aggregate basis for individually immaterial business combinations occurring during a reporting period that are material collectively. This supplemental pro forma information is included in an unaudited note to the financial statements. If this disclosure is deemed to be impracticable, the entity must disclose that fact and explain why the disclosure is impracticable.

Similar pro forma disclosure requirements were required under APB Opinion No. 16, *Business Combinations*, and FASB Statement No. 141, *Business Combinations*. The Board gave consideration to these pro forma information disclosure requirements during deliberations for Statements 141 and FASB Statement No. 141(R), *Business Combinations*, during which time certain respondents indicated that the inclusion of pro forma information is useful for measuring organic growth and in assessing the progress towards synergies expected to result from the business combination.

The SEC also requires its registrants to prepare pro forma financial information to be included in a Form 8-K for business combinations that are determined to meet a significance threshold as defined under Rules 1-02(w) and 305 of Regulation S-X. The purpose of this pro forma financial information is to provide investors with information about the continuing impact of a particular transaction by showing how it might have affected the historical financial statements if the transaction had been consummated at an earlier time. The pro forma financial information should assist investors in analyzing the future prospects of the registrant because it illustrates the possible scope of the change in the registrant's historical financial position and results of operations caused by the transaction. That pro forma financial information is to be prepared under Article 11 of Regulation S-X, which requires that pro forma results of operations be presented for the most recent annual fiscal year and the subsequent interim period, if applicable. Article 11 permits, but does not require, the inclusion of pro forma information for the comparative interim period, but not for the comparative annual period. Article 11 pro forma financial information is not included in the financial statements and requires a more extensive presentation than the financial statement disclosure requirements under Topic 805.

The staff is aware that diversity exists in practice as to whether the pro forma financial information required to be disclosed under Topic 805 should be prepared as if the business combination occurred at the beginning of each of the current and prior annual periods, or only at the beginning of the prior annual period. Certain constituents have indicated that they believe that the pro forma results should be prepared as if the business combination occurred at the beginning of the prior annual period for purposes of calculating both the prior reporting period and the current reporting period pro forma financial information. Those constituents believe that presenting pro forma results as if the business combination occurred at the beginning of each annual period inappropriately results in certain adjustments that impact pro forma earnings being included in the pro forma results of both reporting periods. That result primarily arises when pro forma adjustments include amortization expense of intangible assets with useful lives of less than two years and expense related to the fair value step-up of acquired inventory with a turnover of less than two years.

Scope

This Issue applies to all public entities, as defined in Topic 805, that have entered into a material business combination, or a series of immaterial business combinations that are material in the aggregate.

Accounting Issues and Alternatives

Issue 1—When comparative financial statements are presented, whether supplemental pro forma disclosures should be prepared assuming that the business combination occurred (a) at both the beginning of the current annual period for the current reporting period and the beginning of the prior annual period for the prior reporting period, or (b) at the beginning of the prior annual period for both reporting periods.

View A: *The pro forma disclosure should be presented as if the business combination occurred at the beginning of the current annual period for the current reporting period and at the beginning of the prior annual period for the prior reporting period.*

View B: *The pro forma disclosure should be presented as if the business combination occurred at the beginning of the prior annual period for purposes of calculating both the current reporting period and the prior reporting period pro forma financial information.*

Issue 2—Whether the Task Force wishes to consider additional enhancements to the existing pro forma disclosure requirements under Topic 805, as suggested by users.

Question 1—Does the Task Force believe that the pro forma disclosures under Topic 805 should be accompanied by a narrative description of the nature and amount of material, nonrecurring pro forma adjustments?

Question 2—Does the Task Force want to pursue the need to make further improvements, as noted below, to existing pro forma disclosure requirements under Topic 805?

The disclosure requirements for pro forma financial information related to business combinations vary significantly when comparing the FASB's requirements under Topic 805 and the SEC's requirements under Article 11 of Regulation S-X. During the user outreach performed by the FASB staff in connection with Issue 1, all users noted that the pro forma financial information disclosure requirements under Topic 805 should be expanded and conformed in some, or all respects, to the SEC's requirements under Article 11.

Users also noted that the disclosure of pro forma (a) pre-tax earnings, (b) gross or operating margin, and (c) cash flows from

operations would improve the usefulness of the pro forma financial information. Users indicated that they prefer the nature of presentation (multi-columnar format showing the historical results of each entity, pro forma adjustments, and pro forma results as adjusted) and the accompanying note disclosures required under Article 11. **Transition Method** *View A: The consensus should be applied on a prospective basis as of the date of adoption.* *View B: The consensus should be applied on a retrospective basis to all prior periods as of the date of adoption.*	

AGENDA ISSUE:	**Issue No. 10-B** "Accounting for Multiple Foreign Exchange Rates"	**PROPOSED TIME:** 3:15 – 4:15 **STAFF:** Farber / Brower

ISSUES/VIEWS | **MEETING NOTES**

Document: Issue Supplement No. 1, with Working Group Report No. 1

Background

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. This Issue addresses the accounting implications for entities that operate in foreign countries that have multiple exchange rates.

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 preference 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.

Scope

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.

Accounting Issues and Alternatives

Issue 1: Does the Task Force want to provide guidance for determining whether it is appropriate to use different exchange rates (such as a market rate and a preferential/penalty rate) for (a) remeasurement of a foreign-currency-denominated transaction and (b) translation of a foreign subsidiary's financial statements when multiple exchange rates exist?

View A: *The Task Force should not provide additional guidance on this Issue as the accounting anomaly that existed in Venezuela prior to Venezuela's economy becoming highly inflationary (an amount denominated in the same currency as the parent entity's reporting currency being reported as a different amount as a result of the remeasurement and translation process) is rare. Exchange rates for distributing dividends are typically penalty rates rather than preferential rates, and amending the model in Topic 830 to address this situation is not warranted.*

View B: *The Task Force should provide additional guidance on this Issue.*

Issue 2: 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.

View A: *It may be appropriate to use different exchange rates if a foreign-currency-denominated transaction will be settled at the preferential/penalty rate and there are no unusual circumstances to preclude the use of the dividend rate for translating the subsidiary's financial statements.*

View B: *The same rate should be used for both remeasuring a foreign-currency-denominated transaction and translating the financial statements because the existence of multiple exchange rates constitutes an "unusual circumstance."*

View B': *Modify the requirements in Subtopic 830-30 to require that the exchange rate used for the translation of foreign company financial statements be the same as the rate used for remeasuring foreign currency transactions.*

View C: *It is appropriate to use the dividend rate for translating the subsidiary's financial statements if there are no unusual circumstances to preclude the use of that rate. However, additional guidance should be provided for determining which dividend rate to use when multiple rates exist for remitting dividends.*

Issue 3: If the Task Force concludes that View A is appropriate in Issue 2, the additional disclosures that should be reflected in the financial statements of the reporting entity.

View A: *Provide the disclosures required by Update 2010-19 related to situations in which the reported balance for financial reporting purposes differs from the U.S dollar-denominated balance.*

View B: *Replace the disclosure requirements in Update 2010-19 with a requirement to explain why a particular rate was used for translating a foreign subsidiary's financial statements when multiple exchange rates exist.*

Issue 3a: If the Task Force concludes that View B is appropriate in Issue 2, the additional disclosures that should be reflected in the financial statements of the reporting entity.

View A: *Disclose situations in which a rate other than the rate for the purpose of dividend remittance is used (that is, when unusual circumstances exist).*

View B: *No additional disclosures are required.*

Transition Method and Disclosures

If the Task Force concludes that View A is appropriate for Issue 2, then no transition would be required because the conclusion would only affect the disclosure requirements in Update 2010-19 that are already in effect for SEC registrants.

If the Task Force concludes that View B, View B', or View C is appropriate for Issue 2, the Task Force will need to determine the appropriate transition method. In addition, if the Task Force believes that there are any additional items identified in the Working Group Report that should be addressed by the FASB staff, the transition for those items would be addressed separately.

View A: *The consensus should be applied by recording a cumulative-effect adjustment to the opening equity balance in the period of adoption.*

View B: *The consensus would be applied retrospectively to all prior periods, consistent with the requirements of paragraph 250-10-45-5.*

The disclosure requirements in paragraphs 250-10-50-1 through 50-3 would be required under both View A and View B.

Other Items

Based on the information included in the Working Group Report, are there any items that the Task Force believes should be addressed by the FASB staff?