FINANCIAL ACCOUNTING STANDARDS BOARD
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October 6, 2010

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the September 16, 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 September 29, 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 Update that have been marked for changes from the September 29, 2010 Fatal Flaw drafts. After your review, please discard the confidential marked versions of these documents. The final Update for Issue 10-C was issued on September 21, 2010. We expect the proposed Updates for Issues 09-H, 10-A, and 10-G to be issued by October 6, 2010. The final Update for Issue 09-G 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 **Friday, November 19, 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

Emerging Issues Task Force
Meeting Minutes
September 16, 2010

0910FN

MINUTES OF THE SEPTEMBER 16, 2010 MEETING OF THE FASB EMERGING ISSUES TASK FORCE

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, September 16, 2010
Starting Time: 8:30 a.m.
Concluding Time: 2:15 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
Carlo D. Pippolo
Matthew L. Schroeder
R. Harold Schroeder
Ashwinpaul C. (Tony) Sondhi
Robert Uhl
Lawrence E. Weinstock

Task Force Members Absent:
Mark LaMonte
Paul A. Beswick (SEC Observer)

[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 (by telephone)
Shelly C. Luisi, SEC Senior Associate Chief Accountant
Sagar Teotia, SEC Professional Accounting Fellow
Kevin W. Brower, FASB Practice Fellow
* Michael P. Breen, FASB Practice Fellow
* Sriprasadh Cadambi, FASB Practice Fellow
* Kevin P. Catalano, FASB Practice Fellow
* Benjamin Couch, FASB Practice Fellow
* Trevor Farber, FASB Practice Fellow
* Michael T. Gonzales, FASB Associate Practice Fellow
* Trent L. Handy, FASB Practice Fellow
* William D. Hildebrand, 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 August 19, 2010 EITF Agenda Committee meeting:
  - Issues added to the EITF agenda:
    - EITF Issue No. 10-G, "Disclosure of Supplementary Pro Forma Information for Business Combinations." Refer to discussion of this Issue elsewhere in these minutes.
  - Issues not added to the EITF agenda:
    - Certain Issues Relating to Accounting for Intangible Assets to Be Used in Research and Development That Are Acquired in a Business Combination
    - Accounting for Acquired Temporary Differences in an Asset Acquisition
    - Calculating the Fair Value of a Reporting Unit with a Non-controlling Interest.

- An FASB staff member announced that the Working Group on EITF Issue No. 10-A, "How the Carrying Amount of a Reporting Unit Should Be Calculated When Performing Step 1 of the Goodwill Impairment Test," met on August 17, 2010, and that the Working Group on Issue No. 10-B, "Accounting for Multiple Foreign Exchange Rates," met on August 24, 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, September 29, 2010. 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, September 29, 2010 (with one exception[1]).

- November 2010 EITF meeting. An FASB staff member announced that the next EITF meeting is expected to be held on Friday, November 19, 2010. The staff member also announced that the extra meeting date reserved for October 14, 2010, would not be utilized and that the next EITF Agenda Committee meeting is expected to be held on Wednesday, October 6, 2010.

[1] At the September 16, 2010 EITF meeting, the Board ratified the consensus on EITF Issue No. 10-C, "Reporting Loans to Participants by Defined Contribution Pension Plans." Refer to discussion of this Issue elsewhere in these minutes.

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; September 16, 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.

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.

24. The Task Force discussed whether to re-expose this Issue in light of the decisions reached at the March meeting. The Task Force decided not to re-expose the Issue at this time but rather to 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.

Current EITF Discussion

25. On August 19, 2010, the staff posted the staff draft to the FASB website. The staff draft did not formally seek comments; however, it welcomed input from interested parties. As a result, 10 comment letters were received (2 from industry associations and 8 from preparers). A number of comment letter respondents raised concerns with the staff draft, including concerns that the proposed guidance would result in economically similar acquisition costs (for example, commissions) receiving different accounting treatments depending on whether the person performing the acquisition activity was an independent third party or an employee. Some constituents raised concerns with the interaction between the effective dates of this Issue and the FASB and IASB's joint project on insurance contracts and with the different criteria for deferring acquisition costs in those two projects. Other respondents were concerned that diversity will continue to exist given the alternative transition methods allowed in the Update and requested that a practical expedient be developed to allow more entities to adopt the Issue retrospectively.

26. At the September 16, 2010 EITF meeting, the Task Force discussed the feedback from the comment letter respondents, particularly the issues related to (a) the requirement that incremental direct costs of contract acquisition must be incurred in transactions with independent third parties to be deferrable in their entirety and (b) the potential use of a practical expedient to provide more entities with the opportunity to apply the amendments in the Update retrospectively.

27. Some Task Force members continued to question whether deferring incremental direct costs of contract acquisition to be incurred in transactions with "independent third parties" was a preferable approach because in some relationships common in the insurance industry it may not

be clear whether the third party meets the criteria for being independent. Other Task Force members indicated that they believe that for certain costs, such as commissions, there is an economic distinction between commissions paid to employees and those paid to independent third parties and believe that the loan origination model should be retained in its entirety. However, upon further discussion the Task Force decided to reverse its previous decision and reached a consensus that incremental direct costs of contract acquisition that are incurred in transactions with both independent third parties and employees are deferrable in their entirety if the capitalization criteria are met. This decision was consistent with the model that was originally exposed for comment. Some Task Force members also noted that this change would better align the consensus with the current acquisition cost definition in the joint insurance project and would address operability and cost/benefit concerns that were raised by constituents.

28. The Task Force decided to retain its previous decision to require prospective application upon the date of adoption and concluded that retrospective application is also permitted, but not required. The Task Force concluded that early adoption would be permitted, but shall only be applied as of the beginning of an entity's annual reporting period as a means to enhance comparability in entities that choose to early adopt the guidance.

29. The Task Force discussed whether a practical expedient could be developed to allow more entities to retrospectively adopt the final Update (for example, using the current year data and applying that data to prior years for which historical information was not available). Ultimately, the Task Force decided against providing a practical expedient. The Task Force also requested that the staff include language in the basis for conclusions of the final Update that if retrospective application is applied, entities could make reasonable estimates of the impact on prior years based on their specific circumstances, and are not necessarily expected to reperform their detailed capitalization, amortization, and premium deficiency calculations for every prior year if they have ways to reasonably estimate those amounts in accordance with Subtopic 250-10.

Recurring Disclosures

30. The Task Force did not suggest further revisions to the recurring disclosure requirements of paragraph 944-30-50-1, which remain 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.

Transition Method, Transition Disclosures, and Effective Date

31. The Task Force discussed the transition for this Issue. The Task Force affirmed as a consensus its consensus-for-exposure to require prospective application upon the date of adoption and permit but not require retrospective application. The Task Force concluded that early adoption is permitted. The Task Force concluded that early adoption shall only be applied as of the beginning of an entity's annual reporting period. The Task Force also clarified that if retrospective application is elected, the guidance in Topic 250 for retrospective application should be applied.

32. The Task Force also affirmed its consensus on transition disclosures. The Task Force concluded that if an entity chooses to apply the amendments in 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.

33. The Task Force concluded that if an entity chooses to apply the amendments in 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 apply.

34. The Task Force agreed with the staff's recommendation to defer the effective date of the amendments in the Update by one year from the effective date included in the proposed Update. Thus, the amendments in the final 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 the additional time should be sufficient for entities to update systems and perform time studies to implement the revised model.

Board Ratification

35. At the September 29, 2010 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

36. No further EITF discussion is planned.

Issue No. 09-H

Title: Health Care Entities: Revenue Recognition

Dates Discussed: March 18, 2010; July 29, 2010; September 16, 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 954-605-25-3. 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 healthcare 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.

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.

Current EITF Discussion

15. At the September 16, 2010 EITF meeting, some Task Force members indicated their preference was to address this Issue as a recognition and measurement issue (that is, following Approaches A, B, or C from the July 29, 2010 EITF meeting). Those members noted that under current practice, revenue includes amounts that are unlikely to be collected and preferred that this Issue be addressed by revising the reported amount of revenue rather than through disclosures. Other Task Force members were concerned that the industry may have to change its current revenue recognition practice twice, once as a result of this Issue and a second time upon completion of the FASB and IASB's joint revenue recognition project, and therefore preferred that this Issue be addressed through expanded disclosure. Ultimately, the Task Force decided to address the concerns through expanded disclosures.

16. The Task Force discussed the example disclosures provided by the staff. Some Task Force members were concerned that preparers would have difficulty providing the requested information. The Task Force also considered several other possible disclosures, including a full gross-to-net reconciliation of revenues and disclosures that focuses solely on types of payors in situations in which collectability of payment may not be reasonably assured when services are provided.

17. The Task Force reached a consensus-for-exposure that a health care entity should disclose all of the following:

a. Its policy for considering collectability in the timing and amount of revenue and bad debt expense recognized.
b. Its net revenues by major payor sources of revenue. Major payor sources of revenue shall be identified by the entity, consistent with how the entity manages its business.
c. A tabular reconciliation, describing the activity in the allowance for doubtful accounts for the period, by major payor sources of revenue.

18. The Task Force decided that those disclosures provide sufficient information to allow a user to better understand and analyze reported revenues and bad debt expense, without overwhelming the user with too much information or requiring the preparer to disclose proprietary information. In addition to those disclosure requirements, the Task Force requested that the proposed Update include a question for respondents about whether disclosing net revenue by type of service (that is, emergency care, elective services, and so forth) would be more useful information than net revenue by major payor sources. Some Task Force members questioned the operability of that approach and whether entities monitored their receivables and bad debts in that fashion.

Recurring Disclosures

19. The Task Force reached a consensus-for-exposure that the disclosures resulting from this Issue would be required on an interim and annual reporting basis.

Transition Method, Transition Disclosures, and Effective Date

20. The Task Force reached a consensus-for-exposure that the disclosures resulting from this Issue would be required to be provided retrospectively for all periods presented. Task Force

members observed that it should not be significantly difficult to obtain the information for the disclosure since it is intended to be consistent with how the entity manages its business.

Board Ratification

21. At the September 29, 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.

Status

22. Further discussion is expected at a future meeting.

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

Dates Discussed: July 29, 2010; September 16, 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 met on May 10, 2010, and was asked to provide perspectives on possible approaches that may address this Issue, but was not asked to provide any recommendations.

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.

Scope

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

Prior EITF Discussion

6. 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.

> **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.

7. During the discussion at the July meeting, several Task Force members noted that the concerns raised by constituents generally involve 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 assignment of all liabilities of an entity to its single reporting unit in determining the carrying value for Step 1 of the goodwill impairment test. That assignment procedure differs from multiple-reporting-unit entity situations in which corporate-level liabilities, such as debt financing, may not be assigned to the entity's reporting units. Those Task Force members suggested that one approach that could be used to 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 include (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.

8. After their discussion of potential approaches, Task Force members generally favored developing approaches that more narrowly address 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 variations of Views A and B with this Issue's Working Group.

Current EITF Discussion

9. On August 17, 2010, the Working Group reconvened to discuss the variations of View A and View B as requested by the Task Force. Based upon discussions with the Working Group, the staff developed the following three alternatives for Task Force consideration.

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': Specify that Step 1 of the test is to be performed using an Equity premise but 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'': Specify that Step 1 of the test is to be performed using an Equity premise but require Step 2 to be performed only 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.

10. At the September 16, 2010 EITF meeting, the Task Force considered the three alternative variations of View A. Some members of the Task Force stated that they were not in favor of View A because it requires a Step 2 analysis to be performed even when there are no indicators that a goodwill impairment exists. One Task Force member stated that they prefer View A′ because they believe that View A″ effectively eliminates Step 1 of the impairment analysis and instead creates a single step goodwill impairment test. Other Task Force members noted that View A" would still result in a two-step test but that the first step would differ for entities with a zero or negative carrying value. Ultimately, Task Force members agreed with the Working Group's recommendation and reached a consensus for View A″. The Task Force noted that the examples in paragraph 350-20-35-30 are some of the qualitative factors to consider when determining whether it is more likely than not that a goodwill impairment exists but not an all inclusive list. Additionally, the Task Force observed that the impairment triggers to perform Step 2 should be considered throughout a reporting entity's fiscal year rather than solely at the time of the annual impairment test.

Recurring Disclosures

11. The staff recommended that no additional recurring disclosures be included as a result of this Issue. The Task Force agreed with that recommendation.

Transition Method, Transition Disclosures, and Effective Date

12. The staff presented three transition alternatives for Task Force consideration. Some Task Force members were concerned that some of the views would not capture impairments that resulted from events that occurred prior to its last annual impairment test. Additionally, Task Force members did not believe that requiring all reporting entities with a reporting unit whose carrying value is zero or negative to perform Step 2 upon adoption was appropriate unless an indication of impairment exists. Thus, the Task Force reached a consensus on an alternative approach for transition, which is as follows:

> *Upon adoption, if the carrying value of the reporting unit as determined by the equity premise is zero or negative, the reporting entity must perform Step 2 of the goodwill impairment test if it is more likely than not that goodwill is impaired as of the date of adoption.*

13. The Task Force also considered how reporting entities that previously applied the Enterprise premise to calculate the carrying value of the reporting unit would be affected by the requirement to apply the Equity premise. The Task Force directed the staff to include a question in the proposed Update about the effect this Issue will have on entities that had previously calculated the carrying value of their reporting units using the Enterprise premise. The Task Force also directed the staff to clarify that any previously recognized goodwill impairments taken as a result of applying an alternative premise (that is, other than the Equity premise) should not be reversed as a result of adopting the amendments in the proposed Update and that the transition provisions only apply to reporting units with a zero or negative carrying value on the date of adoption.

14. The staff recommended that any goodwill impairment recognized upon adoption of this Issue should be presented as a cumulative-effect adjustment to beginning retained earnings of the period of adoption. Task Force members agreed with that recommendation, because they believe

that the amendments proposed by the Update represent a change in accounting principle. The Task Force also clarified that any Step 2 test required upon adoption would be performed as of the date of adoption.

15. The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue should be effective for interim and annual reporting periods in fiscal years beginning after December 15, 2010.

16. The Task Force discussed whether the effective date for public reporting entities should be the same for nonpublic reporting entities. The Task Force discussed the timeliness of education cycles and whether nonpublic entities will have time to implement the amendments in the proposed Update after they become aware of it. Some members of the Task Force noted that while some nonpublic entities may not become aware of the proposed Update before its effective date, other nonpublic entities may want to adopt at the same time as the public reporting entities. Task Force members observed that many users of nonpublic entity financial statements do not put great emphasis on the reported amount of goodwill or related impairments. As a result, the Task Force reached a consensus-for-exposure to defer the effective date for nonpublic entities until interim and annual reporting periods in fiscal years beginning after December 15, 2011, to provide nonpublic entities with more time to understand and evaluate the effects of adopting the amendments. However, the Task Force also reached a consensus-for-exposure that nonpublic entities should be allowed to early adopt using the effective date for public companies. Early adoption would not be permitted for public reporting entities.

Board Ratification

17. At the September 29, 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 30-day public comment period.

Status

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

Issue No. 10-B

Title: Accounting for Multiple Foreign Exchange Rates

Dates Discussed: July 29, 2010; September 16, 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.

Prior EITF Discussion

6. At the July 29, 2010 EITF 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 a 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. Some 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.

Current EITF Discussion

8. At the September 16, 2010 EITF meeting, the Task Force discussed the fact that the accounting anomaly that arose for an entity's operations in Venezuela prior to the economy being highly inflationary no longer exists (that is, 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). Accordingly, the Task Force decided that it should not provide additional guidance on this Issue now, but may address this Issue again in the future should it arise.

9. The Task Force also discussed whether it believes that any of the items identified in the Working Group Report derived from the Working Group's August 24, 2010 meeting should be addressed. One Task Force member noted that companies with operations in Venezuela currently face issues concerning the appropriate rate for remeasurement of monetary assets and liabilities of their Venezuelan operations. Ultimately, the Task Force decided not to provide additional

guidance because it believes that developing broad guidance would be difficult due to the constantly changing situation in Venezuela as well as the varying facts and circumstances of different entities.

Status

10. This Issue will remain open and may be discussed further at a future meeting.

Issue No. 10-C

Title: Reporting Loans to Participants by Defined Contribution Pension Plans

Dates Discussed: July 29, 2010; September 16, 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 pension plans.

Prior 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 from participants 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 from participants, 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.

10. 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 EITF meeting.

The proposed Update was posted to the FASB website on August 18, 2010, with a comment period that ended on September 7, 2010.

Current EITF Discussion

11. At the September 16, 2010 EITF meeting, the Task Force considered 19 comment letters received on the proposed Update. All of the comment letter respondents were supportive of the Task Force's conclusions.

12. The Task Force affirmed as a final consensus its consensus-for-exposure that participant loans should be classified as notes receivable from participants in the financial statements of a defined contribution plan, measured at the outstanding principal amount plus accrued but unpaid interest.

Recurring Disclosures

13. The Task Force decided that no additional recurring disclosures specific to participant loans should be required. Further, the disclosure requirements regarding fair value in paragraphs 825-10-50-10 through 50-16 are not applicable for participant loans. At the September 16, 2010 meeting, the Task Force also reached a consensus that participant loans are exempt from credit quality disclosures required by Accounting Standards Update No. 2010-10, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*.

Transition Method, Transition Disclosures, and Effective Date

14. An employee benefit plan will apply the proposed classification guidance retrospectively to all prior periods presented. The amendments to the Accounting Standards Codification resulting from this consensus will be effective for fiscal years ending after December 15, 2010, with early adoption permitted. The Task Force decided to permit early adoption of the amendments in the Update to allow for the application of this guidance to be reflected in an entity's 2009 financial statements included in Form 5500 if those financial statements have yet to be issued.

Board Ratification

15. At the September 16, 2010 EITF meeting, the Board ratified the consensus reached by the Task Force in this Issue.

Status

16. No further EITF discussion is planned.

Issue No. 10-E

Title: Accounting for Deconsolidation of a Subsidiary That Is In-Substance Real Estate

Date Discussed: September 16, 2010

Introduction

1. 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 (the borrower) 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.

2. When real property is financed with nonrecourse debt, in the event of deterioration of the property's cash flow or value, the borrower may default on the borrowing and thereby transfer control of the entity and/or 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 on a non-recourse basis to purchase real property. 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 borrowers are voluntarily or involuntarily defaulting on their debt.

3. 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, Property, Plant, and Equipment—Real Estate Sales (formerly issued as FASB Statement No. 66, *Accounting for Sales of Real Estate*), 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.

4. This Issue seeks to resolve the differing views in practice about whether the guidance in Subtopic 360-20 applies to transactions or events, including foreclosure, that result in deconsolidation of in-substance real estate. Examples of events that would result in deconsolidation of in-substance real estate entities include but are not limited to:

a. The entity defaults on its debt obligations resulting in a change in the entity's primary beneficiary without a transfer of the entity's equity interests or its assets or the extinguishment of its debt. This may occur, for example, when the lender has rights that are exercisable only in the event of default by the entity, but that once exercisable give the lender the power to direct the activities that most significantly impact the entity's economic performance.
b. The entity defaults on nonrecourse debt and the lender becomes the primary beneficiary of the entity. The lender subsequently loses control of the entity upon an extinguishment or modification of the debt with the entity.
c. The governance provisions of the entity are changed, triggering a change in control of the entity.

5. The accounting guidance is clear that deconsolidation of a subsidiary is required whenever the parent no longer possesses a controlling financial interest. However, if a subsidiary being deconsolidated is in-substance real estate, there are differing views in practice about whether the parent must also satisfy the criteria in Subtopic 360-20 in order to derecognize the real estate in its statement of financial position.

6. If the investor applies the guidance in Subtopic 360-20 when the entity is considered to be in-substance real estate, generally the investor would not satisfy the requirements to derecognize the real estate prior to the legal transfer of the real estate (or the ownership of the entity) to the lender and the extinguishment of the related nonrecourse indebtedness. As a result, the investor would continue to include the real estate, debt, and the results of the entity's operations in its consolidated financial statements and would recognize the gain from the extinguishment of the debt only when the obligation has been legally satisfied. That is, even if the investor is required to deconsolidate the subsidiary that holds the real estate and related indebtedness, the investor would be precluded from derecognizing the real estate asset and would continue to recognize a debt obligation on its balance sheet.

7. Recently, the FASB issued Accounting Standards Update No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*, which addresses implementation issues related to the change in ownership provisions in Subtopic 810-10, Consolidation—Overall (originally issued as FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*). The Update amends the guidance in Subtopic 810-10 so that the decrease in ownership provisions of that Subtopic do not apply to sales of in-substance real estate. The FASB Board was concerned that in-substance real estate entities that are businesses would have been subject to the decrease in ownership provisions of Subtopic 810-10 absent that amendment.

8. Some believe that the transactions or events described in paragraph 4 are not sales of in-substance real estate and, accordingly, Subtopic 810-10 would apply. If accounted for under Subtopic 810-10, the investor would deconsolidate the investee entity, including the real estate and related debt, in its consolidated statement of financial position and recognize a gain or loss for the difference between the carrying amounts of the real estate, related debt, and any remaining retained interest. The investor would report its interest in the single-purpose entity in

accordance with either Topic 323, Investments—Equity Method and Joint Ventures, or Topic 325, Investments—Other, whichever is appropriate. The FASB decided to exclude sales of in substance real estate from the scope of the decrease in ownership provisions of Subtopic 810-10, because existing U.S. GAAP on accounting for sales of in substance real estate (Subtopic 360-20 and Subtopic 976-605, Real Estate—Retail Land—Revenue Recognition) includes extensive guidance on how continuing involvement affects sale accounting and profit recognition. A substantial difference between the deconsolidation guidance in Subtopic 810-10 and the sale of real estate guidance in Subtopics 360-20 and 976-605 is that Subtopic 810-10 does not require an evaluation of continuing involvement.

9. This Issue is also relevant to lending institutions based on the guidance in Accounting Standards Update No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (originally issued as FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*). That guidance eliminated the exclusion of troubled-debt restructurings from the events that require reconsideration of whether an entity is a variable interest entity. In addition, that guidance modified when to reconsider whether an entity is a variable interest entity and now also requires a continuous assessment of which party is the primary beneficiary of a variable interest entity. Further, it changed the primary beneficiary analysis from one that was primarily based on quantitative exposure to the majority of expected losses/residual returns to one that is based on (a) control of most significant decisions and (b) participation in benefits/losses. In today's economic environment, the consolidation analysis may more frequently result in the lender being the primary beneficiary—especially for a troubled special purpose entity—requiring the lender to consolidate the special purpose entity.

Issue

10. 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 (originally issued as FASB Statement No. 66, *Accounting for Sales of Real Estate*), applies to deconsolidation of in-substance real estate.

Scope

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

Current EITF Discussion

12. At the September 16, 2010 EITF meeting, the Task Force discussed whether, in certain circumstances, Subtopics 360-20 and/or 810-10 apply to the derecognition of in-substance real estate. During the meeting, the staff clarified that the requirements in Subtopic 360-20 that (a) the sale is consummated and (b) the usual risks and rewards of ownership are transferred would not be met until the legal transfer of the real estate and legal extinguishment of the related nonrecourse indebtedness are completed. The staff also clarified that the derecognition requirement in Subtopic 360-20 that the buyer demonstrates a commitment to pay for the property would not be met until after the extinguishment of the related nonrecourse indebtedness.

13. One Task Force member disagreed and indicated that they believe that the only condition that is not substantively met is "the sale is consummated." That Task Force member also stated that economically, the lender is the buyer and has already "paid" for the property through the loan it advanced (thus, meeting the buyer's commitment to pay for the property). That Task Force member also indicted that they believe that the investor no longer has 'the usual risks and rewards of ownership because the investor has no further downside and a non-economic option to acquire the property at a price above its fair value. However, other Task Force members noted that Subtopic 360-20 indicates that if the seller has an obligation or option to repurchase the property, the transaction should be accounted for as a financing, leasing, or profit sharing arrangement, even if the option price is above the fair value of the property.

14. Most Task Force members indicated that they believe that the guidance in Subtopic 360-20 is applicable for purposes of determining whether to derecognize real estate owned by a former subsidiary that is in-substance real estate in the consolidated financial statements of a reporting entity. Most Task Force members also indicated that they believe that the same derecognition requirements should be applied regardless of whether the real estate is directly owned or indirectly owned through a single-purpose in-substance real estate subsidiary.

15. Some Task Force members noted that the primary reason that an investor would not be able to derecognize real estate under Subtopic 360-20 is because legal transfer of the property had not yet occurred. Those Task Force members supported making more targeted amendments to Subtopic 360-20 to address those concerns. Other Task Force members stated that they believe that such an approach might entail a broader reconsideration of the derecognition requirements of Subtopic 360-20 and were concerned with extending the scope of the Issue.

16. Other Task Force members noted that this Issue might have an even greater affect on lenders who have consolidated in-substance real estate entities because they became the primary beneficiaries of those entities under the variable-interest entity consolidation guidance. Those Task Force members noted that the scope of this Issue would seem to require those lenders to evaluate the requirements of Subtopic 360-20, as well, in order to derecognize real estate that had been consolidated under those circumstances. Other Task Force members noted that they believe that if the debt is modified, the only criterion of Subtopic 360-20 that should apply to the lender is the evaluation of the borrower's commitment to pay for the property (that is, whether the new primary beneficiary of the in-substance real estate entity has made an adequate initial and continuing investment in the entity).

17. Ultimately, Task Force members indicated that they believe that more analysis and outreach should be performed from the lender's standpoint prior to reaching a consensus-for-exposure. As a result, the Task Force directed the FASB staff to perform additional outreach to potentially affected lenders and further analyze the effect application of Subtopic 360-20 would have on lenders or transactions other than legal form sales or transfers.

Status

18. Further discussion is expected at a future meeting.

Issue No. 10-G

Title: Disclosure of Supplementary Pro Forma Information for Business Combinations

Date Discussed: September 16, 2010

Introduction

1. Topic 805, Business Combinations, requires public entities to disclose pro forma information for business combinations that occurred during a reporting period. Specifically, paragraph 805-10-50-2(h) requires public entities to disclose certain information including:

> 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).

2. 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 a 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.

3. Similar pro forma disclosure requirements were required under both APB Opinion No. 16, *Business Combinations*, and FASB Statement No. 141, *Business Combinations*. The Board gave consideration to the pro forma information disclosure requirements during deliberations for both Statement 141 and FASB Statement No. 141 (revised 2007), *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.

4. 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 that 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.

5. In practice, diversity exists 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 reporting period inappropriately results in certain adjustments that affect whether pro forma earnings are 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.

Issues

6. The issues are:

Issue 1— 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

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.

Scope

7. 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.

Current EITF Discussion

8. At the September 16, 2010 meeting, the Task Force reached a consensus-for-exposure that if a public entity presents comparative financial statements, the entity shall disclose revenue and earnings of the combined entity as though the acquisition(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period, if presented.

9. The Task Force considered whether to eliminate the requirement to disclose the prior period comparative pro forma information. A Task Force member questioned whether the requirement that the comparative period be presented should be changed and aligned with IASB requirements

(that is, eliminate the requirement for prior period presentation). The Task Force decided to retain the disclosure requirement to provide comparative pro forma disclosures because it is better aligned with the SEC's Form 8-K pro forma disclosure requirements under Article 11 of Regulation S-X as far as the acquisition date to be used is concerned.

10. The Task Force also decided to expand the supplemental pro forma disclosures under Topic 805 to include a narrative description of the nature and amount of material, nonrecurring pro forma adjustments because it believes that this disclosure provides useful information to users of financial statements. The Task Force decided not to pursue making other changes requested by users, such as requiring the disclosure of (a) pro forma pre-tax earnings, (b) pro forma gross or operating margins, or (c) pro forma cash flows from operations because those requests had already been deliberated by the Board in conjunction with the issuance of Statement 141(R), and because the issue that the Task Force was asked to address was narrow in scope.

Effective Date and Transition Method

11. The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue should be applied prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption would be permitted.

Board Ratification

12. At the September 29, 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 30-day public comment period.

Status

13. Further discussion is expected at a future EITF 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 November 19, 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-H	Health Care Entities: Revenue Recognition	10/09	3/10, 7/10, 9/10	11/10	Hanson	Hildebrand/ Cadambi	The FASB staff will prepare an Issue Supplement following exposure of a proposed Update	Proposed Update comment deadline November 5, 2010; November 19, 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, 9/10	11/10	Hauser	Worshek/ Couch	The FASB staff will prepare an Issue Supplement following exposure of a proposed Update	Proposed Update comment deadline November 5, 2010; November 19, 2010 EITF meeting

Issue No.	Description	Date Added	Date(s) Discussed	Next Meeting	EITF Liaison	FASB Staff	Immediate Plans	Due Date - Next Deliverable
10-D	Accounting for Certain Fees Associated with Recently Enacted Health Care Legislation	6/10	7/10	11/10	Bielstein	Worshek/ Bauer	The FASB staff will prepare an Issue Supplement following exposure of a proposed Update	Proposed Update comment deadline October 8, 2010; 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	11/10	Hauser	Cadambi/ Farber	The FASB staff will prepare an Issue Supplement	November 19, 2010 EITF meeting
10-F	Accounting for Legal Costs Associated with Medical Malpractice Claims	7/10	7/10	11/10	Hanson	Hildebrand/ Gonzales	The FASB staff will prepare an Issue Supplement	November 19, 2010 EITF meeting
10-G	Disclosure of Supplementary Pro Forma Information for Business Combinations	8/10	9/10	11/10	H. Schroeder	Breen/ Catalano	The FASB staff will prepare an Issue Supplement following exposure of a proposed Update	Proposed Update comment deadline November 5, 2010; 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/ TBD	Pending the outcome of the Board's projects on consolidation and investment properties.	Future EITF Meeting
10-B	Accounting for Multiple Foreign Exchange Rates	3/10	7/10, 9/10	N/A	Farber/ Brower	No immediate plans to address this Issue.	N/A

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