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FINANCIAL ACCOUNTING STANDARDS BOARD

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December 17, 2010

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the November 19, 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 December 2, 2010 Fatal Flaw draft. After your review, please discard the confidential marked version of the minutes.

Also included are versions of the proposed Accounting Standards Updates and final Accounting Standards Updates that have been marked for changes from the December 2, 2010 Fatal Flaw drafts. After your review, please discard the confidential marked versions of these documents. We expect the proposed Updates for Issues 09-H and 10-H to be posted to the FASB website by some time today, December 17, 2010. The final Updates for Issues 10-A and 10-D have been posted to the FASB website, and the final Update for Issue 10-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 **Thursday, March 24, 2011,** 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
November 19, 2010

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MINUTES OF THE NOVEMBER 19, 2010 MEETING OF THE FASB EMERGING ISSUES TASK FORCE

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Friday, November 19, 2010
Starting Time: 8:30 a.m.
Concluding Time: 1:25 p.m.

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

Task Force Members Absent:
None.

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

Others at Meeting Table:

Leslie F. Seidman, FASB Board Member
Larry W. Smith, FASB Board Member
Marc A. Siegel, FASB Board Member
Kevin W. Brower, FASB Practice Fellow
* Kristin Bauer, 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
* William D. Hildebrand, FASB Practice Fellow
* Robert L. Worshek, FASB Practice Fellow

* For certain issues only.

ADMINISTRATIVE MATTERS

- An FASB staff member announced that on October 6, 2010, the acting FASB chairman made the following EITF agenda decisions regarding issues discussed at the October 6, 2010 EITF Agenda Committee meeting:
  - Issues added to the EITF agenda:
    - None.
  - Issues not added to the EITF agenda:
    - Cash Flow Statement Presentation of Derivative Instruments with an Other-Than-Insignificant Financing Element.

- The EITF chairman announced the creation of the position of *PCFRC Observer to the EITF*. Ms. Judith H. O'Dell is expected to fill the position beginning with the March 24, 2011 EITF meeting. The FASB's Private Company Financial Reporting Committee (PCFRC) was formed in June 2006 to address how standards-setting affects day-to-day technical activities and procedures from a cost/benefit perspective. The addition of this EITF Observer will ensure adequate representation for all non-public business entities regardless of size, which is a major component of the FASB's initiative to further improve the standards-setting process. Ms. O'Dell has been the chair of the PCFRC since 2006, and a member of the FASB staff since January 2007.

- 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, December 1, 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, December 1, 2010.

- An FASB staff member announced that the next EITF meeting is expected to be held on Thursday, March 24, 2011. The staff member also announced that the extra meeting date reserved for January 13, 2011, would not be utilized and that the next EITF Agenda Committee meeting is expected to be held on a date yet to be determined in January 2011.

- During discussion of EITF Issue No. 10-D, "Fees Paid to the Federal Government by Pharmaceutical Manufacturers," the Task Force decided to separately address the effects of fees paid by health insurers to the federal government under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, by adding to the EITF agenda EITF Issue No. 10-H, "Fees Paid to the Federal Government by Health Insurers." The acting FASB chairman, who was present at the meeting, approved the addition of Issue 10-H to the EITF agenda.

- The Task Force decided to discontinue further discussion of EITF Issue No. 10-F, "Accounting for Legal Costs Associated with Medical Malpractice and Similar Claims." The acting FASB chairman is expected to approve and publicly announce the removal of Issue 10-F from the EITF agenda at the December 1, 2010 Board meeting.

DISCUSSION OF AGENDA TECHNICAL ISSUES

Issue No. 09-H

Title: Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts

Dates Discussed: March 18, 2010; July 29, 2010; September 16, 2010; November 19, 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.

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 disclosures. 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.

19. 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.

Current EITF Discussion

20. At the November 19, 2010 EITF meeting, the Task Force discussed the 10 comment letters received on the proposed Update and feedback from the staff's outreach to users of financial statements. Some financial statement users indicated that information regarding an entity's policy for considering collectability in the timing and amount of revenue and bad debt expense

recognized, as well as disclosure of an entity's net revenues by major payor sources, is currently being provided. One user indicated a preference for uniform disclosures related to self-pay discount policies and charity care. That user believes that disclosures of the self-pay discounts, the gross amounts related to charity care, and the provision for bad debts provide a better data point with regard to uncompensated care than does the provision for bad debts in isolation.

21. Some Task Force members indicated that they preferred bad debt expense to be reflected as a reduction of revenues in the computation of net revenues as suggested by several comment letter respondents. Those Task Force members acknowledged that although net presentation does not resolve the recognition problem originally brought to the Task Force, it does result in a statement of operations presentation that is directionally closer to the way in which the statement of operations would be presented if the revenue recognition guidance in the health care industry was aligned with general revenue recognition guidance applied by other industries.

22. Other Task Force members were concerned that netting bad debt expense without a separate line item disclosure in the statement of operations, would cause the transparency of the bad debt provision afforded financial statement users, to be lost. Additionally, some Task Force members indicated that they preferred bifurcating the bad debt provision between the amounts of the provision that may represent pricing concessions and the amounts related to subsequent changes in credit risk. Other Task Force members were concerned with the operability of such an approach, and noted that no such bifurcation occurs under current GAAP, thus no information would be lost based on the requirement to present bad debt expense on a separate line item as a reduction of revenue.

23. The Task Force decided to retain the existing revenue recognition model for health care entities and reached a consensus that those entities should present the provision for bad debts as a component of net revenues within the revenue section of their statement of operations, similar to the following:

Revenues (net of contractual allowances and discounts)	$X,XXX,XXX
Provision for bad debts	X,XXX
Net revenues less provision for bad debts	$X,XXX,XXX

24. Additionally, the Task Force also discussed supplementing the change in the presentation of the statement of operations with the disclosures included in the proposed Update. The Task Force discussed comments received about whether additional clarification was needed to describe the categories of major payor sources. For example, some Task Force members observed that the concerns raised about requirements for potential system changes resulted from concerns that specific payor categories would be required to be disclosed. The Task Force indicated that it believes that system changes would not be required because the disclosures should be consistent with the way in which the entity currently manages its business (that is, how it assesses credit risk), and asked the staff to provide further clarification in the basis for conclusions of the final Update. Some Task Force members were not supportive of keeping the new disclosures as they believe that the new disclosures provide little incremental benefit to existing disclosures. The Task Force also discussed whether the presentation or disclosure requirements should be different for private entities, and concluded that they should be

consistent.

25. The Task Force believes that the disclosures in the proposed Update provide users with greater transparency about a health care entity's net revenue and allowance for doubtful accounts. Therefore, the Task Force affirmed as a consensus with some modification its consensus-for-exposure that a health care entity should disclose all of the following, by major payor source of revenue:

a. Its policy for assessing collectability in the timing and amount of revenue and bad debt expense recognized
b. Its revenue (net of contractual allowances and discounts) before any provision for bad debts
c. A tabular reconciliation, describing the activity in the allowance for uncollectible accounts for the period.

Major payor sources of revenue shall be identified by the entity, consistent with how the entity manages its business (that is, assesses credit risk).

26. The Task Force discussed whether to re-expose the Issue because of the consensus reached on the statement of operations presentation of the provision for bad debts. Some Task Force members indicated that they did not believe that any new information would be learned as a result of re-exposure based on previous Task Force discussions and the outreach performed by the staff on this Issue. The Task Force concluded that the amendments resulting from this Issue should not be re-exposed because the final Update will only require the reclassification of an existing operating expense as a reduction of revenues, rather than as a change in the recognition of those amounts.

Recurring Disclosures

27. The Task Force affirmed as a consensus its 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

28. The Task Force reached a consensus that health care entities should apply the provisions of the final amendments in the Update resulting from this Issue related to the presentation of bad debt expense in the statement of operations retrospectively and the provisions related to the new disclosure requirements prospectively. Task Force members observed that it should not be operationally difficult to adopt the provisions of the final amendments related to the presentation of bad debt in the statement of operations because they only require a reclassification of an existing operating expense line item to a reduction of revenues.

29. The Task Force also reached a consensus that for public entities, the final amendments in the Update resulting from this Issue would be effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2010, with early adoption allowed. For nonpublic entities, the final amendments would be effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption allowed.

Board Ratification

30. At the December 1, 2010 meeting, the Board ratified the consensus reached by the Task Force on this Issue. Subsequent to the Board's ratification of this Issue, constituents raised concerns about the potential effects and implementation issues that may arise as a result of that consensus. At the December 8, 2010 meeting, the Board decided to reexpose the consensus reached by the Task Force for this Issue and approved the issuance of a proposed Update for a 60-day public comment period.

Status

31. Further discussion is expected at a future meeting.

Issue No. 10-A

Title: When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts

Dates Discussed: July 29, 2010; September 16, 2010; November 19, 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 zero or 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 when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts.

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.

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.

11. 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.

Current EITF Discussion

12. At the November 19, 2010 EITF meeting, the Task Force discussed the 14 comment letters received on the proposed Update. In response to concerns raised by comment letter respondents about mandating that the carrying value be calculated as the net amount of assets and liabilities assigned to a reporting unit, the Task Force concluded that the concerns raised by constituents regarding reporting units with zero or negative carrying amounts could be addressed without mandating an approach for calculating the carrying amount of a reporting unit for purposes of Step 1 of the goodwill impairment test.

13. Accordingly, the Task Force reached a consensus that regardless of the method of calculating its carrying amount, a reporting unit with zero or negative carrying amounts must perform Step 2 of the goodwill impairment test if, qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The qualitative factors are consistent with the existing guidance in paragraph 350-20-35-30, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

14. While discussing this Issue, Task Force members considered the advantages and disadvantages of (a) the method for calculating the carrying value of reporting units that was included in the consensus-for-exposure and (b) other alternative methods that are commonly used in practice. Some Task Force members thought choosing an approach for calculating the carrying amount of a reporting unit was an accounting principle choice, while others thought it was a choice of estimation methods. One Task Force member was concerned that this diversity would effectively allow a publicly traded single reporting unit to look to something other than its quoted market price as evidence of fair value. The Task Force did not reach a consensus about which method was appropriate for use with a particular reporting unit and decided not to mandate an approach. However, the Task Force observed that the fair value of the reporting unit

should be determined consistently with the manner in which its assets and liabilities are included in determining the carrying amount of the reporting unit.

15. The Task Force considered a proposal by the FASB's Private Company Financial Reporting Committee (PCFRC) that suggested that nonpublic entities should replace the quantitative test in Step 1 of the goodwill impairment test with the qualitative factors included in the amendments in the Update resulting from this Issue. The Task Force agreed with the staff that this proposal was beyond the narrow scope of this Issue. One Board member indicated that applying the qualitative criteria to reporting units only with zero or negative carrying amounts was inadequate since it would allow reporting units with nominally positive carrying amounts to avoid having to consider the same adverse qualitative factors. Another Board member observed that the FASB is currently evaluating how to respond to input from constituents regarding the usefulness of goodwill and related impairments in the financial statements of nonpublic entities apart from this Issue. Thus, the Task Force did not support expanding the use of qualitative factors beyond those instances in which the carrying amount of a reporting unit is zero or negative.

Recurring Disclosures

16. The Task Force affirmed as a consensus the FASB staff's recommendation that no additional recurring disclosures be included as a result of this Issue.

Transition Method, Transition Disclosures, and Effective Date

17. The Task Force affirmed as a consensus its consensus-for-exposure on the following approach for transition:

> *Upon adoption, if the carrying value of the reporting unit 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.*

18. The Task Force reached a consensus that any goodwill impairment recognized upon adoption of the amendments in the Update resulting from this Issue should be presented as a cumulative-effect adjustment to beginning retained earnings of the period of adoption reflecting a change in accounting principle.

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

20. To provide nonpublic entities with more time to understand and evaluate the effects of adopting the amendments in the Update resulting from this Issue, the Task Force affirmed as a consensus its consensus-for-exposure to defer the effective date of the amendments for nonpublic entities to interim and annual reporting periods in fiscal years beginning after December 15, 2011. The Task Force also affirmed as a consensus its consensus-for-exposure that nonpublic entities should be allowed to early adopt using the effective date for public companies. Early adoption is not permitted for public reporting entities.

Board Ratification

21. At the December 1, 2010 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

22. No further EITF discussion is planned.

Issue No. 10-D

Title: Fees Paid to the Federal Government by Pharmaceutical Manufacturers

Dates discussed: July 29, 2010; November 19, 2010

Introduction

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

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

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

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

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

Issues

6. The issues are:

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

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

Scope

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

Prior EITF Discussion

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

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

10. At the August 18, 2010 meeting, the Board ratified the consensus-for-exposure reached by the Task Force for this Issue and approved the issuance of a proposed Update for a 45-day public comment period.

Current EITF Discussion

11. At the November 19, 2010 EITF meeting, the Task Force discussed the six comment letters received on the proposed Update and affirmed as a consensus its consensus-for-exposure that the annual fee should be presented as an operating expense. The Task Force also affirmed as a consensus its consensus-for-exposure that the liability for the fee should be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable.

12. The Task Force observed that entities are not required to reevaluate their existing policies related to similar fees assessed by governmental authorities. Further, the Task Force observed that the consensus reached in this Issue is based on the unique facts and circumstances of the fee to be paid by pharmaceutical manufacturers; accordingly, entities should apply judgment when evaluating the facts and circumstances of other fee arrangements before analogizing to the consensus reached in this Issue.

13. The Task Force discussed several comment letters submitted by health insurers requesting that the scope of the Issue be expanded to include fees to be paid under the Acts by health insurers. The Task Force discussed expanding the scope of Issue 10-D and determined that adding a separate Issue to its agenda to consider the fees paid by health insurance entities may be appropriate. The acting FASB chairman, who was present at the EITF meeting, formally added EITF Issue No. 10-H, "Fees Paid to the Federal Government by Health Insurers," to the EITF Agenda. The discussion of Issue 10-H at the November 19, 2010 EITF meeting is included in the minutes for that Issue.

Recurring Disclosures

14. The Task Force affirmed as a final consensus its consensus-for-exposure that no additional recurring disclosure requirement should be provided for this Issue.

Transition Method and Disclosures

15. The Task Force affirmed as a final consensus its consensus-for-exposure that the amendments in the Update resulting from this Issue are effective for calendar years beginning after December 31, 2010.

Board Ratification

16. At the December 1, 2010 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

17. No further EITF discussion is planned.

Issue No. 10-E

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

Dates Discussed: September 16, 2010; November 19, 2010

Introduction

1. Subtopic 810-10, Consolidation—Overall (originally issued as FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*) requires that a parent deconsolidate a subsidiary if the parent no longer holds a controlling financial interest in the subsidiary. However, if the 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, Property, Plant, and Equipment—Real Estate Sales (originally issued as FASB Statement No. 66, *Accounting for Sales of Real Estate*) in order to derecognize the real estate in its consolidated financial statement if deconsolidation is required other than as a result of a sale or transfer.

2. If the parent is required to apply the guidance in Subtopic 360-20, in addition to the requirements in Subtopic 810-10 when the subsidiary is in-substance real estate, generally the parent would not satisfy the requirements in Subtopic 360-20 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[1]. As a result, the parent would continue to include the real estate, debt, and the results of the entity's operations in its consolidated financial statements. That is, even if the parent is required to deconsolidate a subsidiary that is in-substance real estate in accordance with Subtopic 810-10, the parent would be precluded from derecognizing the real estate if it does not satisfy the sale recognition requirements of Subtopic 360-20.

3. If the parent is not required to apply the guidance in Subtopic 360-20, then under Subtopic 810-10, the parent would deconsolidate the subsidiary, resulting in the derecognition of the real estate and related debt from its consolidated statement of financial position and recognition of a gain or loss for the difference between the carrying amounts of the real estate, related debt, and the fair value of any retained interest. The parent would report any interest retained in the previously consolidated entity in accordance with either Topic 323, Investments—Equity Method and Joint Ventures, or Topic 325, Investments—Other, whichever is appropriate.

Issue

4. This Issue seeks to resolve the differing views in practice about whether the guidance in Subtopic 360-20 applies to deconsolidation of in-substance real estate.

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[1] In EITF Issue No. 91-2, "Debtor's Accounting for Forfeiture of Real Estate Subject to a Nonrecourse Mortgage," the Task Force considered situations in which the Investor directly holds the real estate and debt. While the Task Force did not reach a consensus on this Issue, the FASB staff view, which the SEC staff agreed with, was that the Investor would record a gain for the excess of the loan balance over the fair value of the property only on the extinguishment of the debt.

Scope

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

Prior EITF Discussion

6. 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.

7. 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 indicated 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.

8. 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.

9. 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.

10. 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).

11. 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.

Current EITF Discussion

12. At the November 19, 2010 EITF meeting, the Task Force reached a tentative conclusion that the reporting entity must apply the guidance in Subtopic 360-20 to determine whether to derecognize real estate owned by an in-substance real estate subsidiary that the reporting entity is required to deconsolidate. Some Task Force members believe that the accounting guidance for derecognition of real estate in Subtopic 360-20 requires that guidance to be applied only in situations in which the interests in a separate entity are sold and that entity is considered in-substance real estate. A majority of Task Force members believe that if the reporting entity is required to deconsolidate in-substance real estate, the same derecognition requirements in Subtopic 360-20 should be applied regardless of whether the real estate is owned directly by a reporting entity or indirectly through a reporting entity’s single-purpose in-substance real estate subsidiary. Those Task Force members also believe that Subtopic 360-20 should apply to deconsolidation of an entity that is in-substance real estate regardless of whether control is lost through the sale of equity or variable interests in the subsidiary or through other means.

13. The Task Force also discussed whether Subtopic 810-10, as well as Subtopic 360-20, should be applied to circumstances under which entities being evaluated for consolidation are considered in-substance real estate or whether those entities should be accounted for only in accordance with Subtopic 360-20. However, no decision was reached by the Task Force.

14. Some Task Force members raised concerns that in certain situations, the tentative conclusion reached may not be operable. Ultimately, the Task Force requested that the staff perform additional research on the application of the proposed model that is based on the tentative conclusion reached by the Task Force with the assistance of a Working Group.

Status

15. Further discussion is expected at a future EITF meeting.

Issue No. 10-F

Title: Health Care Entities: Accounting for Legal Costs Associated with Medical Malpractice and Similar Claims

Dates Discussed: July 29, 2010; November 19, 2010

Introduction

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

Issues

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

Prior EITF Discussion

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

4. At the August 18, 2010 meeting, the Board ratified the consensus-for-exposure reached by the Task Force for this Issue and approved the issuance of a proposed Update for a 45-day public comment period.

Current EITF Discussion

5. At the November 19, 2010 EITF meeting, the Task Force discussed the three comment

letters received on the proposed Update and the feedback from the staff's outreach to financial statement users. Based on that input, Task Force members concluded that the benefits of eliminating the industry-specific guidance related to health care entities were outweighed by the lack of comparability between entities within that industry that would result from providing an accounting policy election. Task Force members believe that it is more common for health care entities to be compared to each other as opposed to entities in other industries that are afforded a policy election on how to account for legal fees. Therefore, the Task Force decided to recommend that this Issue be removed from the EITF agenda.

Status

6. At the December 1, 2010 Board meeting, the acting FASB chairman affirmed the removal of this Issue from the EITF agenda. No further EITF discussion is planned.

Issue No. 10-G

Title: Disclosure of Supplementary Pro Forma Information for Business Combinations

Dates Discussed: September 16, 2010; November 19, 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. 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.

Prior 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.

11. 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.

Current EITF Discussion

12. At the November 19, 2010 EITF meeting, the Task Force considered the six comment letters received on the proposed Update. The comment letter respondents were generally supportive of the Task Force's conclusions.

13. The FASB staff also received an informal comment that highlighted an inconsistency in the acquisition date used for the pro forma disclosure in the consensus-for-exposure when compared to Article 10 of Regulation S-X (interim financial statements) if comparable financial statements are presented. In regards to that inconsistency, the SEC Observer noted that the SEC staff recognizes that the consensus, while conforming in many respects to Article 11 of Regulation S-X, diverges from Article 10 of Regulation S-X. The intent of Article 10 of Regulation S-X was to require pro forma information in interim financial statements to be prepared in a manner that is consistent with that required by GAAP in the annual financial statements. Accordingly, the SEC staff will not object to registrants' application of Article 10 to their interim financial statements in a manner consistent with this consensus while the SEC staff considers ways to update Article 10 of Regulation S-X to be consistent with the consensus.

14. The Task Force affirmed as a final consensus its 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. In addition, the Task Force affirmed as a final consensus its consensus-for-exposure that the supplemental disclosures would be expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination.

Effective Date and Transition Method

15. The Task Force affirmed as a final consensus its consensus-for-exposure that the amendments in the Update 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

16. At the December 1, 2010 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

17. No further EITF discussion is planned.

Issue No. 10-H

Title: Fees Paid to the Federal Government by Health Insurers

Date Discussed: November 19, 2010

Introduction

1. At the November 19, 2010 EITF meeting, the Task Force discussed several comment letters submitted by health insurers commenting on the proposed Update resulting from the consensus-for-exposure on EITF Issue No. 10-D, "Fees Paid to the Federal Government by Pharmaceutical Manufacturers," requesting that the Task Force expand the scope of that Issue. Specifically, those comment letter respondents requested that the scope of Issue 10-D be broadened to include the accounting for fees to be paid by health insurers as required by the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (in combination, the Acts). The Task Force discussed expanding the scope of Issue 10-D and determined that adding a separate Issue to the EITF agenda to consider fees to be paid by health insurance entities may be appropriate. Because the fees are not applicable until 2014, that decision would give stakeholders sufficient time to comment on any proposed guidance on the Issue. The acting FASB chairman, who was present at the EITF meeting, formally added Issue 10-H to the EITF agenda.

2. For the health insurance industry, the annual fee ranges upward from $8.0 billion, a portion of which will be allocated to individual health insurers based on the ratio of both of the following amounts incurred by individual health insurers in relation to the amounts incurred by all covered entities:

   a. The amount of their net premiums written with respect to health insurance for any U.S. health risk that is written during the preceding calendar year

   b. Two hundred percent of the covered entity's (as defined by the Acts) third-party administrative agreement fees.

3. A health insurance entity's portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1, 2014.

Issues

4. The issues are:

Issue 1— Whether the conclusions reached under Issue 10-D regarding the accounting for the fee due under the Acts for pharmaceutical manufactures should be applicable to the fee to be paid by health insurers under the Acts

Issue 2— Whether the fee incurred by health insurers under the Acts meets the definition of acquisition costs in Topic 944, Financial Services—Insurance.

Current Discussion

5. At the November 19, 2010 EITF meeting, the Task Force discussed the six comment letters received on the proposed Update resulting from the consensus-for-exposure on Issue 10-D and agreed that current guidance could be improved by also addressing the fee to be paid by health insurers under the Acts. The Task Force expressed concerns that constituents were unclear about how the fee would be accounted for under existing guidance and that those entities may apply existing guidance differently, thereby hurting comparability. As such, the Task Force agreed that the fee to be paid by health insurers should be accounted for in a manner similar to the fee to be paid by pharmaceutical manufacturers under the Act. Specifically, the Task Force agreed in Issue 10-D that the liability for the fee to be paid by pharmaceutical manufacturers should be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable.

6. Some Task Force members indicated that the fee required under the Acts would not meet the definition of an acquisition cost as defined in FASB Accounting Standards Update No. 2010-26, *Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. The Task Force believes that the fee does not represent a cost related to the acquisition of policies. Additionally, the Task Force noted that most health insurance policies provide coverage for one year, similar to the period over which the Task Force concluded the fee should be amortized. Some Task Force members believe that the accounting for the fee would not result in a material difference for most entities, regardless of whether the fee is categorized as an acquisition cost.

7. The Task Force reached a consensus-for-exposure that a health insurer should account for its portion of the fee to be paid as required by the Acts as a liability to be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable, with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. Additionally, the Task Force reached a consensus-for-exposure that the fee would not qualify as an acquisition cost.

Transition Method and Disclosures

8. As the first annual fee is not payable until 2014, the annual fee will not affect a reporting entity's income statement until after the Task Force plans to reach a final consensus on this Issue. Accordingly, the Task Force reached a consensus-for-exposure that the proposed Update be effective for calendar years beginning after December 31, 2013.

Board Ratification

9. At the December 1, 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 120-day public comment period.

Status

10. Further discussion is expected at a future meeting.

Status of Open Issues and Agenda Committee Items

The following represents the FASB staff's assessment of the status and immediate plans with respect to the open Issues on the Task Force's agenda. The Issues on the proposed agenda for the March 24, 2011 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: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts	10/09	3/10, 7/10, 9/10	11/10	Hanson	Hildebrand/ Cadambi	The FASB staff will prepare and Issue Supplement following reexposure of proposed Update	Comment deadline February 15, 2011; June 23, 2011 EITF meeting
10-E	Accounting for Deconsolidation of a Subsidiary That Is In-Substance Real Estate	6/10	9/10	11/10	Hauser	Cadambi/ Farber	The FASB staff will prepare an Issue Supplement following a meeting of the Working Group	March 24, 2011 EITF meeting
10-H	Fees Paid to the Federal Government by Health Insurers	11/19	11/19	6/11	Pippolo	Bauer/ Worshek	The FASB staff will prepare an Issue Supplement following exposure of a proposed Update	Comment deadline April 18, 2011; June 23, 2011 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