

EITF 0611FN

FINANCIAL ACCOUNTING STANDARDS BOARD

401 Merritt 7, P.O. Box 5116

Norwalk, Connecticut 06856-5116

Telephone: 203-847-0700 *Fax:* 203-849-9470

Internet address: eitf@fasb.org or mpbreen@fasb.org

July 15, 2011

TO: MEMBERS OF THE FASB EMERGING ISSUES TASK FORCE

Included are the final minutes of the June 23, 2011 meeting of the FASB Emerging Issues Task Force and an inventory of open issues for the next EITF meeting. Also included as exhibits are (a) the proposed Accounting Standards Update for Issue 10-E and (b) the final Accounting Standards Updates for Issues 09-H and 10-H.

Confidential marked versions of the minutes and the exhibits, which show changes from the July 7, 2011 Fatal Flaw draft, are being distributed under separate cover. After your review, please discard the confidential marked versions.

We expect the proposed Update to be posted to the FASB website by July 22, 2011. The final Updates for Issues 09-H and 10-H will be issued as soon as practicable depending on the finalization of other Board documents currently in our production department.

The next EITF meeting, which was originally scheduled for September 8, 2011, is now expected to be held on Thursday, September 1, 2011, pending the results of the next EITF Agenda Committee meeting, which will be held on July 27, 2011. The extra EITF meeting date reserved for July 28, 2011, will not be utilized.

Please call me at 203.956.3479 if you have any questions.

Sincerely,
Michael P. Breen
Practice Fellow
mpbreen@fasb.org

**Emerging Issues Task Force
Meeting Minutes
June 23, 2011**

	<u>Pages</u>
• Attendees	1–2
• Administrative Matters	3
• Discussion of Agenda Technical Issues	4–23
1. Issue 09-H, "Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities"	4–12
2. Issue 10-E, "Derecognition of in Substance Real Estate"	13–17
3. Issue 10-H, "Fees Paid to the Federal Government by Health Insurers"	18–20
• <u>Status of Open Issues and Agenda Committee Items</u>	21–23

**MINUTES OF THE JUNE 23, 2011 MEETING
OF THE FASB EMERGING ISSUES TASK FORCE**

Location: FASB Offices
401 Merritt 7
Norwalk, Connecticut

Thursday, June 23, 2011

Starting Time: 9:25 a.m.

Concluding Time: 12:17 p.m.

Task Force Members Present:

Susan M. Cospers (Chairman)

Mark M. Bielstein

Mitchell A. Danaher

Stuart H. Harden¹

Jan R. Hauser

Carl Kampel

Mark LaMonte

Carlo D. Pippolo

Matthew L. Schroeder

Ashwinpaul C. (Tony) Sondhi

Robert Uhl

Lawrence E. Weinstock

Paul A. Beswick (SEC Observer)

Judith H. O'Dell (PCFRC Observer)¹

Richard C. Paul (FinREC Observer)

Task Force Members Absent:

James G. Campbell

¹ Participated by telephone.

Others at Meeting Table:

Leslie F. Seidman, FASB Board Member
Larry W. Smith, FASB Board Member
Thomas J. Linsmeier, FASB Board Member
Marc A. Siegel, FASB Board Member
Russell G. Golden, FASB Board Member
R. Harold Schroeder, FASB Board Member
Daryl E. Buck, FASB Board Member
Kevin W. Brower, FASB Practice Fellow
Michael P. Breen, FASB Practice Fellow
* Kristin Bauer, FASB Practice Fellow
* Kenneth B. Bement, FASB Project Manager
* Sriprasadh Cadambi, FASB Practice Fellow
* Trent L. Handy, FASB Practice Fellow
* William D. Hildebrand, FASB Practice Fellow

* For certain issues only.

ADMINISTRATIVE MATTERS

- Ms. Leslie F. Seidman, FASB Chairman, introduced Ms. Susan M. Cosper, FASB Technical Director, as the new EITF chairman replacing Mr. Russell G. Golden, FASB Board member.
- The FASB chairman welcomed Mr. R. Harold Schroeder and Mr. Daryl E. Buck, both of whom were appointed FASB Board members on February 28, 2011.
- The EITF chairman welcomed Mr. Richard C. Paul of Deloitte & Touche LLP, as the newly appointed FinREC Observer to the EITF replacing Mr. Jay D. Hanson who also served as an EITF member.
- The EITF chairman announced that Mr. R. Harold Schroeder and Mr. Jay D. Hanson had stepped down as members of the EITF and thanked them for their service. New members to replace Messrs. Schroeder and Hanson will be announced in the upcoming months.
- The EITF chairman announced that Mr. Stuart H. Harden, EITF member; Ms. Judith H. O'Dell, PCFRC Observer; Mr. Michael Stewart, IASB Observer; and Ms. Shelly C. Luisi, SEC Associate Chief Accountant, were participating by telephone.
- An FASB staff member announced that the EITF Agenda Committee meeting that was to be held on April 25, 2011, was canceled because no new potential issues had been submitted for the Committee's consideration.
- An FASB staff member announced that any consensus-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, July 13, 2011. Any consensus-for-exposure reached at prior meetings that are affirmed as consensus at this meeting will also be considered by the Board for ratification at the Board meeting on Wednesday, July 13, 2011.
- An FASB staff member announced that as a result of scheduling conflicts, the next EITF meeting, which was originally scheduled for September 8, 2011, is now expected to be held on Thursday, September 1, 2011, pending the results of the next EITF Agenda Committee meeting. The staff member also announced that the extra meeting date reserved for July 28, 2011, would not be utilized and that the next EITF Agenda Committee meeting is expected to be held on July 18, 2011.
- The EITF chairman announced that Mr. Michael P. Breen, FASB Practice Fellow, had been appointed to the position of EITF Coordinator replacing Kevin W. Brower, FASB Practice Fellow. The EITF chairman thanked Mr. Brower for his contribution.
- The EITF chairman announced the departure of the following FASB Fellows whose terms will be coming to an end in the upcoming months: Mr. Kevin W. Brower, Mr. Sriprasadh Cadambi, Mr. Trevor Farber, Mr. Michael Gonzales, Mr. William D. Hildebrand, and Ms. Kim Yang. The EITF chairman thanked the departing Fellows for their service.

DISCUSSION OF AGENDA TECHNICAL ISSUES

Issue No. 09-H

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

Dates Discussed: March 18, 2010; July 29, 2010; September 16, 2010; November 19, 2010; June 23, 2011

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 estimated 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. Originally, this Issue applied to all revenue transactions of health care entities as defined in Topic 954, Health Care Entities. At the June 23, 2011 EITF meeting, the scope was revised to limit the change in the presentation of the provision for bad debts and the disclosures to patient service revenue of health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though the entity does not assess the patient's ability to pay.

Prior EITF Discussion

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

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

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

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

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

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

8. Several Task Force members also observed that health care providers exhibit unique characteristics because in many situations they are obligated by law to provide services to a patient (customer) regardless of whether they know whether that patient has the ability to pay or will be eligible for third-party coverage. Those Task Force members noted that View C would better reflect the economics of the industry. Those Task Force members also noted that View C was consistent with the direction of the FASB and the IASB's 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 revenue 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 with the assistance of a Working Group.

10. At the July 29, 2010 EITF meeting, the Task Force did not reach a consensus-for-exposure on this Issue. The EITF Issue No. 09-H Working Group held a meeting on May 10, 2010, and 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 the concern of several Task Force members 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 that 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, therefore, 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 collectibility 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 collectibility 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.

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 collectibility in the timing and amount of revenue and bad debt expense recognized, as well as disclosure of an entity's net revenue 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 revenue in the computation of net revenue 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 provision for bad debts afforded financial statement users, to be lost. Additionally, some Task Force members indicated that they preferred bifurcating the provision for bad debts 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:

Revenue (net of contractual allowances and discounts)	\$X,XXX,XXX
Provision for bad debts	<u>X,XXX</u>
Net revenue 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 because 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 collectibility 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.

27. 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 scope of this Issue as well as 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 re-expose 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.

Current EITF Discussion

28. At the June 23, 2011 EITF meeting, the Task Force discussed the 15 comment letters received on the second proposed Update and feedback from the staff's outreach to users of health

care entities' financial statements. Respondents generally supported the requirements in the proposed Update. However, some respondents indicated that they preferred that the requirements in the proposed Update not be finalized. Rather, they preferred to wait until the completion of the FASB and IASB's joint project on revenue recognition. The staff observed that in performing outreach to users of financial statements, some users supported finalizing the consensus-for-exposure while others supported limiting the changes to enhanced disclosures until the Boards have completed their joint project on revenue recognition.

29. The Task Force discussed proposed revisions suggested by the AICPA Health Care Expert Panel (Expert Panel) to narrow the scope of the Issue. The purpose of the revisions proposed by the Expert Panel was to limit the change in the presentation of the provision for bad debts to patient service revenue of health care entities that recognize revenue at the time the services are rendered even though they do not assess the patient's ability to pay. The concerns about those entities originally prompted the addition of this Issue to the EITF agenda. Accordingly, entities that consider whether collectibility is reasonably assured before recognizing patient service revenue would not be affected by this consensus.

30. The Task Force also discussed whether bad debts associated with other types of revenue (excluding bad debts related to patient service revenue) of health care entities should be included in the scope of this Issue. Most Task Force members did not believe that the reclassification of those bad debts as a reduction of revenue from operating expenses was necessary as part of this Issue. A few Task Force members indicated that this Issue is not relevant for other types of revenue because collectibility is generally assessed prior to recognition of those other types of revenue of health care entities. Therefore, the Task Force decided that the scope of this Issue should be limited to patient service revenue.

31. Based on that discussion, the Task Force reached a consensus that a health care entity that recognizes significant amounts of patient service revenue at the time the services are rendered even though the entity does not assess the patient's ability to pay should present the provision for bad debts related to patient service revenue as a deduction from revenue (net of contractual allowances and discounts) in the statement of operations, similar to the following:

Patient service revenue (net of contractual allowances and discounts)	\$X,XXX
Provision for bad debts	<u>XX</u>
Net patient service revenue less provision for bad debts	X,XXX
Premium revenue	X,XXX
Other operating revenue	<u>X,XXX</u>
Total revenue	<u><u>XX,XXX</u></u>

32. A health care entity's bad debts that should continue to be presented as an operating expense in the statement of operations include:

- a. Bad debts related to receivables from revenue other than patient service revenue
- b. Bad debts related to receivables from patient service revenue if the entity only recognizes revenue to the extent it expects to collect that amount (for example, the entity recognizes revenue in accordance with SEC Staff Accounting Bulletin 104, *Revenue*

Recognition).

33. The Task Force discussed the disclosures in the proposed Update. Given the change in scope suggested by the Expert Panel, some Task Force members questioned the usefulness of a tabular rollforward of the allowance for doubtful accounts and did not believe that the disclosure should be required. Other Task Force members believed that a tabular rollforward would provide useful information to users of health care entity financial statements and should be required. A few Task Force members observed that entities in other industries do not currently provide a rollforward for bad debts. Still, other Task Force members noted that the industry-specific disclosure is necessary to address the existing diversity, which is another reason for the addition of this Issue to the EITF agenda.

34. The Task Force affirmed as a consensus the consensus-for-exposure that a health care entity that recognizes significant amounts of patient service revenue at the time the services are rendered even though it does not assess the patient's ability to pay, should disclose the following, by major payor source of revenue:

- a. Its policy for assessing the timing and amount of uncollectible revenue recognized as bad debts
- b. Its policy for assessing collectibility in determining the timing and amount of patient service revenue (net of contractual allowances and discounts) to be recognized
- c. Its patient service revenue (net of contractual allowances and discounts) before any provision for bad debts.

An entity should identify its major payor sources of revenue consistent with how the entity manages its business (for example, how it assesses credit risk).

35. The Task Force also reached a consensus that in addition to the disclosures above, a health care entity should provide qualitative and quantitative information about significant changes in its allowance for doubtful accounts related to patient accounts receivable. This may include information such as significant changes in estimates and underlying assumptions, the amount of self-pay writeoffs, the amount of third-party payer writeoffs, and other unusual transactions impacting the allowance for doubtful accounts.

Recurring Disclosures

36. 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

37. The Task Force affirmed as a consensus the consensus-for-exposure that health care entities should apply the amendments in the Update resulting from this Issue related to the presentation of the provision for bad debts in the statement of operations retrospectively and the amendments related to the new disclosure requirements prospectively. Task Force members observed that it should not be operationally difficult to adopt the amendments related to the presentation of the provision for bad debts in the statement of operations.

38. The Task Force also reached a consensus that for public entities, the amendments in the Update resulting from this Issue should be effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. For nonpublic entities, the amendments resulting from this Issue should be effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. A Task Force member inquired about the definition of “public entities.” It was noted that public entities would include entities with public debt, including conduit bond obligors.

Board Ratification

39. At the July 13, 2011 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

40. No further EITF discussion is planned.

Issue No. 10-E

Title: Derecognition of in Substance Real Estate

Dates Discussed: September 16, 2010; November 19, 2010; June 23, 2011

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 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 statements if deconsolidation is required other than as a result of a legal form sale or transfer.

2. When the subsidiary is in substance real estate, and if the parent is required to apply the guidance in Subtopic 360-20, it is unlikely that the parent would 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 because the transaction is not considered a sale or transfer, then Subtopic 810-10 would apply. 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, as 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.

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 Issue 91-2, 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 when the reporting entity ceases to have a controlling financial interest in a subsidiary that is in substance real estate because of a default by the subsidiary on its nonrecourse debt.

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 (thereby 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 has 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 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 has 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 effect 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 that application of Subtopic 360-20 would have on lenders or transactions other than legal form sales or transfers.

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 in 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 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 with the assistance of a Working Group.

Current EITF Discussion

15. At the June 23, 2011 EITF meeting, the Task Force was asked to consider the feedback provided by the EITF Issue No. 10-E Working Group (meetings held on May 3 and 13, 2011) and to conclude on whether to affirm its tentative conclusion that the guidance in Subtopic 360-20 must be applied to the deconsolidation of in substance real estate subsidiary and whether application guidance should be provided. Several Task Force members inquired about the interaction of this Issue with the proposed joint revenue recognition project. The staff noted that in the FASB and IASB's joint revenue recognition project, the Boards have tentatively decided that an entity should apply the recognition and measurement principles of the proposed revenue

guidance for the derecognition of nonfinancial assets (including in substance real estate transactions) that are not an output of an entity's ordinary activities, for the following:

- a. Intangible assets within the scope of Topic 350, Intangibles—
Goodwill and Other
- b. Property, plant, and equipment (for example, real estate) that is within the scope of Topic 360, Property, Plant, and Equipment.

16. Therefore, an entity would look to the definition and indicators of control in the proposed revenue recognition guidance to determine when the counterparty to the transaction obtains control of the asset (that is, real estate) and when to derecognize that asset (the real estate). Under the proposed revenue recognition guidance, indicators that the customer has obtained control of a good or service include, among others, the fact that the customer has legal title and physical possession. The proposed revenue recognition guidance would supersede the real estate sales guidance in Subtopic 360-20 when finalized. As noted in paragraph 15, an entity would derecognize an investment in the form of a financial asset that is considered to be in substance real estate in accordance with the proposed revenue recognition guidance.

17. Ultimately, the Task Force decided to address only whether Subtopic 360-20 would apply to the loss of control of an in substance real estate entity when that loss of control is the result of default on the subsidiary's nonrecourse debt in accordance with Subtopic 810-10. In these situations, the Task Force reached a consensus-for-exposure that a parent should apply the guidance in Subtopic 360-20 to determine if in substance real estate should be derecognized. Specifically, when the parent of an in substance real estate subsidiary ceases to have a controlling financial interest (as described in Subtopic 810-10) in the subsidiary because of a default by the subsidiary on its nonrecourse debt, the Task Force decided that a reporting entity should apply the guidance in Subtopic 360-20 to determine whether to derecognize real estate owned by the in substance real estate subsidiary. In reaching its consensus-for-exposure, the Task Force decided to provide examples in the proposed Update to illustrate the application of Subtopic 360-20 for these specific situations. In reaching that decision, the Task Force noted the following: (a) the same derecognition requirements (Subtopic 360-20) should apply regardless of whether the real estate is owned directly by the reporting entity or indirectly through the reporting entity's in substance real estate subsidiary, (b) Subtopic 360-10 requires a two-step impairment approach and does not permit the entity to consider the nonrecourse debt when evaluating the real estate asset for impairment, and (c) it would not be appropriate for the entity to derecognize the nonrecourse debt before it has been legally released from its obligation.

18. The Task Force also discussed the Working Group's recommendation that the Task Force recommend that the Board add a project to the FASB agenda to re-examine the impairment rules in Subtopic 360-10, Property, Plant, and Equipment—Overall (originally issued as FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). During the Working Group meetings, some Working Group members expressed concerns that the application of such guidance may result in entities recognizing losses that will not be realized (that is, noneconomic losses). One Task Force member commented that if the Board were to add such a project to its agenda, its scope should not contemplate amending the impairment guidance in Subtopic 360-10 to address the issue. Rather, the Task Force member recommended that any

such project should more holistically address accounting mismatches that may result between both financial and non-financial assets that may be linked to financial liabilities. Some Task Force members were supportive of a recommendation that the Board consider such a project; however, the majority of the Task Force did not believe that such a project was an immediate priority that would currently warrant such a recommendation to the Board.

Recurring Disclosures

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

Effective Date, Transition Method, and Transition Disclosures

20. The Task Force reached a consensus-for-exposure that the amendments resulting from this Issue should be applied on a prospective basis to evaluate whether to derecognize the assets (including real estate) and liabilities (including the related nonrecourse debt) of the in substance real estate subsidiary. Prior periods would not be adjusted even if the reporting entity has continuing involvement with a previously deconsolidated in substance real estate subsidiary. The effective date will be determined after the Task Force considers feedback on the proposed Update. Transition disclosures from paragraphs 250-10-50-1 through 50-3 are required in the period that an entity adopts the provisions of the amendments resulting from this Issue. No additional transition disclosures would be required.

Board Ratification

21. At the July 13, 2011 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 75-day public comment period.

Status

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

Issue No. 10-H

Title: Fees Paid to the Federal Government by Health Insurers

Dates Discussed: November 19, 2010; June 23, 2011

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 associated with the consensus-for-exposure on Accounting Standards Update No. 2010-27, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers* (originating from EITF Issue No. 10-D, "Fees Paid to the Federal Government by Pharmaceutical Manufacturers"). 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 will be allocated to individual health insurers based on the ratio of the amount of an entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year.

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 in 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.

Prior EITF 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 Acts. 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 insurance entity 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.

8. At the December 1, 2010 meeting, the Board ratified the consensus-for-exposure reached by the Task Force on this Issue and approved the issuance of a proposed Update for a 120-day public comment period.

Current EITF Discussion

9. At the June 23, 2011 EITF meeting, the Task Force discussed the four comment letters received on the proposed Update. The Task Force affirmed as a consensus its consensus-for-exposure that the annual fee should 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 affirmed as a consensus its consensus-for-exposure that the fee would not qualify as an acquisition cost.

10. An FASB staff member indicated that based on a comment letter respondent's suggestion that the formula for the calculation of the annual fee not be included, changes were made to the proposed Update to provide reference to the Acts for the calculation so that the consensus would remain applicable over time. Those changes were included in the Issue Summary Supplement. Additionally, the FASB staff member explained that, consistent with the consensus on Issue 10-

D, the consensus should be narrow and specific to the fees in the Acts and that entities should apply judgment when evaluating the facts and circumstances of other fee arrangements before analogizing to the consensus reached in this Issue.

Effective Date and Disclosures

11. Since the first annual fee is not payable until 2014, the annual fee will not affect a reporting entity's income statement until after the date on which the final consensus on this Issue is ratified. Accordingly, the Task Force affirmed as a consensus its consensus-for-exposure that the Update be effective for calendar years beginning after December 31, 2013. The Task Force decided that no additional disclosures are required for this Issue.

Board Ratification

12. At the July 13, 2011 meeting, the Board ratified the consensus reached by the Task Force on this Issue.

Status

13. No further EITF discussion is planned.

THIS WILL BE DISTRIBUTED ONLY WITH THE FINAL MINUTES
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 that will be added to the proposed agenda for the next meeting will be 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
10-E	Derecognition of in Substance Real Estate	6/10	9/10 11/10 6/11	11/11	Hauser	Handy	The FASB staff will prepare an Issue Supplement following exposure of a proposed Update	Comment deadline October 5, 2011; November 3, 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, <i>Brokers and Dealers in Securities</i>	8/06	11/06	Not scheduled	TBD	Pending the outcome of the Board's project to amend ARB No. 43, <i>Restatement and Revision of Accounting Research Bulletins</i> .	Future EITF Meeting
09-D	Application of the AICPA Audit and Accounting Guide, <i>Investment Companies</i> , by Real Estate Investment Companies	2/09	N/A	Not scheduled	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	Not scheduled	TBD	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