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July 2010

EITF Snapshot.

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This *EITF Snapshot* summarizes the July 29, 2010, meeting of the Emerging Issues Task Force.

Initial Task Force consensuses ("consensuses-for-exposure") are exposed for a comment period upon ratification by the Financial Accounting Standards Board. At its first scheduled meeting after the comment period, the Task Force considers comments received and, as warranted, affirms its consensuses-for-exposure as final consensuses. Those final consensuses are then provided to the Board for ratification.

After the August 18, 2010, FASB meeting, official EITF minutes, including the results of the FASB's ratification process, will be posted to Technical Library: The Deloitte Accounting Research Tool and to the FASB's Web site. EITF Issue summaries also can be found on those sites.

Issue 09-G Accounting for Costs Associated With Acquiring or Renewing Insurance Contracts

Status: Final consensus.

Affects: Insurance entities that are within the scope of ASC 944[1] (formerly Statement 60[2]).

Background: Insurance entities that apply the industry-specific guidance in ASC 944-30 defer and subsequently amortize certain acquisition costs incurred during the acquisition of new or renewal contracts. Such costs are commonly referred to as deferred acquisition costs (DAC). This Issue addresses the current diversity in the types of costs entities include in DAC.

ASC 944-30-20 defines acquisition costs as follows:

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

While ASC 944-30 gives several examples of costs that would meet the definition of acquisition costs, the definition itself is very broad and has led to diversity in practice. The examples in ASC 944-30-55-1 are agent and broker commissions, salaries of certain employees involved in the underwriting and policy issuance functions, and medical and inspection fees.

Summary: The Task Force issued an exposure draft of a proposed ASU that defines capitalizable acquisition costs as those that are "directly related to the successful acquisition of new or renewal insurance contract[s]." The exposure draft also clarifies that acquisition costs that can be capitalized are:

- Incremental direct costs of contract acquisition.
- The portion of the insurance entity employee's total compensation and payroll-related fringe benefits directly related to time spent performing any of the following acquisition activities for a contract that has actually been acquired: (1) underwriting, (2) policy issuance and processing, (3) medical and inspection, and (4) contract selling.

In addition, during its November 2009 meeting, the Task Force noted that (1) the principle for capitalizing costs under this Issue would be similar to the principle for capitalizing loan origination fees in ASC 310-20 (formerly Statement 91[3]) and (2) costs incurred for direct-response advertising may be separately capitalized if they meet the criteria in ASC 340-20 (formerly SOP 93-7[4]).

1 For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."
2 FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises.*
3 FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated With Originating or Acquiring Loans and Initial Direct Costs of Leases.*
4 AICPA Statement of Position 93-7, *Reporting on Advertising Costs.*

At its March 2010 meeting, the Task Force considered the comment letters received on its exposure draft. The Task Force reaffirmed its consensus-for-exposure regarding which acquisition costs may be capitalized. However, in response to a concern raised in the comment letters received on the exposure draft, the Task Force agreed that an insurance entity would not be required to capitalize acquisition costs (under the revised guidance) that would be in excess of what an insurance entity would have capitalized under existing policies.

The Task Force also reaffirmed its consensus that only acquisition costs associated with successful contract acquisitions should be capitalized. The Task Force discussed whether the assessment of costs associated with successful versus unsuccessful efforts should be performed on the basis of a portfolio of contracts versus individual contracts; the Task Force decided not to provide prescriptive guidance on this issue and concluded that such an assessment should be based on reasonable judgment.

In response to a question about how capitalized advertising costs would be assessed for recoverability, the Task Force directed the FASB staff to perform further research on the issue and present the results at the July 2010 EITF meeting.

At its July 2010 meeting, the Task Force considered how an entity should incorporate future cash flows associated with advertising costs into the premium deficiency analysis and the assessment of the realizability of direct-response advertising. The Task Force reached a consensus that entities should include deferred advertising costs as a component of DAC and should perform the premium deficiency test in accordance with ASC 944-30 to assess the total deferred costs for realizability. The Task Force also reached a consensus that deferred advertising costs should be amortized in the same manner as other DAC.

The Task Force also reaffirmed that the guidance on DAC in this Issue will be consistent with the capitalization model for loan origination costs in ASC 310-20. Thus, incremental direct costs of a contract acquisition that are incurred in transactions with independent third parties will be capitalized.

Effective Date and Transition: This Issue will be effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2011. Early application will be permitted. This Issue must be applied prospectively; however, an entity can elect to apply the guidance retrospectively to all prior periods.

The Task Force reached a consensus that if an entity adopts the Issue prospectively, it must follow the disclosure guidance in ASC 250-10; however, instead of the disclosure in ASC 250-10-50-1(b)(2) related to effects on the current period, an entity must disclose either of the following:

- The "amount of acquisition costs that would have been capitalized during the corresponding period immediately preceding adoption as if the guidance in the proposed Update had been applied during that period compared to the amount previously capitalized during that period."
- The "amount of acquisition costs capitalized during the period of adoption compared to the amount of acquisition costs that would have been capitalized during the period if the entity's previous policy had been applied during that period."

The Task Force also reached a consensus that if an entity elects retrospective adoption, the entity must provide the disclosures in ASC 250-10 but is exempt from the disclosure requirement in ASC 250-10-50-1(b)(2) related to the effect of the change in the current period.

Next Steps: FASB ratification is expected at the Board's August 18, 2010, meeting, after which the FASB will post a staff draft of a proposed ASU on its Web site. The FASB staff will solicit input on the final consensus from the working group formed to assist with this Issue. The Task Force will discuss its final consensus on this Issue at its September 15–16, 2010, meeting.

Issue 09-H[5] Health Care Entities: Revenue Recognition

Status: No consensus reached.

Affects: Health care organizations (HCOs).

Background: The guidance in ASC 954-605 on how HCOs recognize revenue for which the ultimate collection of all or a certain portion of the amount billed or billable is not reasonably assured at the time the services are rendered differs from the general revenue recognition guidance in ASC 605. In this Issue, the Task Force considered whether that difference should be eliminated. This Issue does not include charity care for which

[5] This Issue previously also contained guidance on (1) presentation of insurance claims and related insurance recoveries and (2) measuring charity care for disclosures. After the March 2010 EITF meeting, the Task Force created two new EITF Issues to address these topics: Issues 09-K and 09-L, respectively.

HCOs record no revenue (e.g., charity care in which HCOs provide services to patients that meet certain established guidelines).

This Issue contemplates situations in which (1) services are provided to self-pay patients (uninsured), (2) services rendered are not covered by insurance, or (3) the amount relates to deductibles and copays for which payment is highly uncertain. In accordance with ASC 954-605, industry practice has been to follow a revenue recognition policy that may entail (1) recording revenue at gross bill rates (i.e., at list price) and simultaneously recognizing a high bad-debt allowance as expense (supported by ASC 954-605) or (2) recognizing revenue only when collectibility is reasonably assured (supported by ASC 605).

Summary: At its March 2010 meeting, the Task Force discussed the revenue recognition model for HCOs and whether collectibility must be reasonably assured before revenue is recognized. The Task Force did not reach a conclusion on this Issue but directed the FASB staff to further explore the following three models of revenue recognition at a future meeting:

- Collectibility must be reasonably assured before an HCO recognizes revenue.
- Collectibility does not have to be reasonably assured before an HCO recognizes revenue. Under this model, collectibility should be considered during measurement rather than during initial recognition. This model is consistent with the FASB's current deliberations on its revenue recognition project and would require an HCO to assess collectibility on a portfolio basis rather than on an individual patient basis.
- Revenue would be recognized in accordance with an HCO's current recognition policies; however, bad-debt expense would be netted against gross revenue in the net revenue line item.

At its July 2010 meeting, the Task Force discussed these three revenue recognition models but did not reach a consensus. Task Force members also suggested an alternative model in which an HCO may follow its current revenue recognition policy but provide additional disclosures about revenue, bad-debt expense, and how management evaluates receivables.

Effective Date and Transition: To be discussed at a future meeting.

Next Steps: The FASB staff will perform additional research on presentation and disclosures and bring back this Issue for further deliberation at a future meeting.

Issue 09-K Health Care Entities: Presentation of Insurance Claims and Related Insurance Recoveries

Status: Final consensus reached on offsetting insurance claims and insurance recoveries; consensus-for-exposure on accrual of legal costs associated with contingent claims.

Affects: HCOs.

Background: This Issue addresses diversity in health care entities' presentation of insurance claims and related insurance recoveries. ASC 954-450-25-2 (formerly paragraph 8.05 of the AICPA Audit and Accounting Guide *Health Care Organizations*) provides guidance on when a liability related to malpractice claims should be recognized in the HCO's financial statements. ASC 954-450-25-2 states, in part:

> If the health care entity has not transferred risk to an external third party, it should evaluate its exposure to losses arising from malpractice claims and recognize a liability, if appropriate.

Some HCOs have interpreted the guidance above as a "risk transfer" notion, which allows offsetting of receivables for expected recoveries from insurers against the recognized accrual for medical malpractice claims. In contrast, some have questioned whether the guidance in ASC 720-20-45-1 (formerly paragraphs 15, 20, and 24 of Issue 03-8[6]) should apply to HCOs. This guidance requires that the offsetting criteria in ASC 210-20-45-1 (formerly paragraph 5 of Interpretation 39[7]) be met before an insured entity can offset prepaid insurance and receivables for expected recoveries from insurers against a recognized liability.

This Issue addresses whether the criteria in ASC 210-20 must be met before an HCO can net a liability for medical malpractice or other contingent claims against related insurance recoveries.

Summary: The Task Force issued an exposure draft of a proposed ASU that would require an HCO to present a liability related to medical malpractice claims (and other contingent claims) gross; such a liability would not be offset against related insurance recoveries unless the criteria in ASC 210-20 for offsetting were met.

[6] EITF Issue No. 03-8, "Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity."

[7] FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*.

At its July 2010 meeting, the Task Force considered comments received on the exposure draft and confirmed its previous consensus-for-exposure.

In addition, the Task Force considered whether the proposed ASU also should eliminate industry-specific guidance on the accrual of legal fees associated with resolving contingent claims. The Task Force reached a consensus-for-exposure that the guidance in ASC 954-450-25-2 on accrual of legal fees should be eliminated and that HCOs should apply the general guidance on such fees in ASC 450-20-S99-2. The Task Force also reached a consensus-for-exposure that an HCO may change its accounting policy for accruing legal costs upon adopting the final ASU without needing to assess preferability under ASC 250-10-45-2. Any change after the adoption of this Issue is considered a change in accounting principle in accordance with ASC 250.

Effective Date and Transition: The final consensus will be effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2010. Early application will be permitted. If there is a difference in the amounts recognized upon adoption of this Issue because an HCO had not previously considered ASC 450 (formerly Statement 5[8]) in recognizing the receivable and liability, an entity should include the impact as a cumulative-effect adjustment to the beginning balance of retained earnings. This final consensus also gives an HCO the option to apply the guidance retrospectively to all prior periods.

The consensus-for-exposure pertaining to recognition of legal costs proposes a retrospective transition.

Next Steps: FASB ratification is expected at the Board's August 18, 2010, meeting, after which the FASB staff will issue an exposure draft of the consensus-for-exposure.

Issue 09-L Health Care Entities: Measuring Charity Care for Disclosure

Status: Final consensus.

Affects: HCOs.

Background: This Issue addresses diversity in how HCOs measure charity care that is disclosed in the financial statements. ASC 954-605-50-3 provides disclosure requirements for charity care, stating the following:

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

Thus, HCOs may use different measurement attributes for charity care disclosed in their financial statements. This has resulted in lack of comparability of charity care disclosures.

Summary: The Task Force issued an exposure draft of a proposed ASU that would require an HCO to disclose, in its financial statements, its policy for providing charity care and the amount of charity care provided. In addition, the proposed ASU would require that the amount of charity care be based on the direct and indirect costs of providing charity care and would eliminate the other measurement attributes available under ASC 954-605-50-3.

At its July 2010 meeting, the Task Force considered comments received on the exposure draft and confirmed its previous consensus-for-exposure. In addition, on the basis of comments received, the Task Force decided to clarify in the final ASU that an HCO must also disclose, in the financial statements, any cost reimbursements associated with providing charity care. The Task Force also decided to clarify in the Basis for Conclusions of the final ASU that an entity may estimate the cost of providing charity care by using ratios in a manner consistent with Form 990.[9]

Effective Date and Transition: This Issue will be effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2010, and must be applied retrospectively. Early application will be permitted.

Next Steps: FASB ratification is expected at the Board's August 18, 2010, meeting.

[8] FASB Statement No. 5, *Accounting for Contingencies*.

[9] IRS Form 990 is an annual reporting return that certain federally tax-exempt organizations must file with the IRS.

Issue 10-A How the Carrying Amount of a Reporting Unit Should Be Calculated When Performing Step 1 of the Goodwill Impairment Test

Status: No consensus reached.

Affects: Entities that evaluate goodwill for impairment under ASC 350-20.

Background: Under ASC 350-20, an entity must perform two steps in testing goodwill for impairment at the reporting-unit level. In step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If a reporting unit's carrying amount exceeds its fair value, the entity must proceed to step 2, in which it measures the amount of impairment, if any. ASC 350-20-35-39 states:

> For the purpose of testing goodwill for impairment, acquired assets and assumed liabilities shall be assigned to a reporting unit as of the acquisition date if both of the following criteria are met:
>
> a. The asset will be employed in or the liability relates to the operations of a reporting unit.
>
> b. The asset or liability will be considered in determining the fair value of the reporting unit.

This Issue addresses how an entity should determine a reporting unit's carrying amount when performing step 1 of the goodwill impairment test and whether the entity should consider additional factors in step 1 that would result in its needing to perform step 2. For example, a question has arisen about how to perform step 1 when the net assets of the reporting entity are negative (note that a negative carrying value for net assets may be more common for entities with a single reporting unit than for those with multiple reporting units). In addition, whether liabilities that are part of the capital structure of a reporting unit are included in or excluded from a reporting unit's carrying amount can lead to different results in step 1 of the goodwill impairment test and, consequently, may affect whether step 2 of the test is performed.

The Task Force proposed several alternatives to address this matter, including the following:

- An entity should perform step 1 on the basis of an equity premise (i.e., the carrying amount of net assets), but the entity may need to perform step 2 because of certain factors.
- In certain circumstances, an entity should perform step 1 on the basis of an enterprise premise (i.e., debt financing liabilities considered part of the entity's capital structure are excluded from the carrying amount).
- In certain circumstances, an entity should perform step 1 on the basis of an asset premise (all liabilities except deferred tax liabilities are excluded from the carrying amount).

Summary: At its July 2010 meeting, the Task Force discussed various approaches outlined by the FASB staff that attempted to address practice issues associated with step 1 of the goodwill impairment test. The Task Force did not reach a consensus on this Issue but directed the FASB staff to perform further research on (1) how an entity may assign assets and liabilities to the reporting unit or exclude certain assets and liabilities from the test of a single reporting unit and (2) whether a fundamental change should be made to the impairment model.

Effective Date and Transition: To be discussed at a future meeting.

Next Steps: The FASB staff will bring back this Issue for further deliberation at a future meeting.

Issue 10-B Accounting for Multiple Foreign Currency Exchange Rates

Status: No consensus reached.

Affects: Entities with foreign subsidiaries in a country in which multiple exchange rates exist.

Background: There is diversity in how entities apply ASC 830 in selecting an appropriate exchange rate for translating their operations in a foreign country and remeasuring foreign currency transactions when multiple exchange rates exist in that country. For example, this issue existed for foreign subsidiaries in Venezuela before that economy was deemed highly inflationary.

ASC 830-20-30-3 requires that a foreign currency transaction be translated at the applicable rate at which a particular transaction could be settled on the transaction date. In contrast, ASC 830-30-45-6 requires that in the absence of unusual circumstances, the exchange rate used to translate foreign currency financial statements should be the rate available for dividend remittances. Use of different rates can result in anomalous results, such as balances reported in an entity's financial statements that differ from their underlying denominated values (see ASC 830-30-S99-1).

Some constituents have interpreted the existence of dual exchange rates as constituting an "unusual circumstance" and thus have asserted that the same exchange rate should be used both to remeasure a foreign-currency-denominated transaction and to translate the financial statements of a foreign operation. In contrast, some constituents believe that the use of different exchange rates for remeasurement and translation is appropriate and is required under U.S. GAAP. These constituents refer to paragraph 121 in the Basis for Conclusions of Statement 52[10] (superseded by ASC 830), which notes that the Board concluded that gains or losses resulting from foreign currency transactions have a different economic nature than those resulting from translating foreign currency financial statements.

Accordingly, this Issue addresses whether it is appropriate to use different exchange rates for remeasurement of a foreign-currency-denominated transaction and translation of a foreign subsidiary's financial statements.

Summary: At its July 2010 meeting, the Task Force discussed whether it should be appropriate to use different exchange rates for (1) remeasurement of foreign currency transactions and (2) translation of a foreign subsidiary's financial statements in an economy with multiple exchange rates. The Task Force did not reach a consensus on this Issue but directed the FASB staff to (1) further analyze what constitutes "unusual circumstances," as described in ASC 830-30-45-6, and (2) discuss current practice issues in Venezuela.

Effective Date and Transition: To be discussed at a future meeting.

Next Steps: The FASB staff will bring back this Issue for further deliberation at a future meeting.

Issue 10-C Accounting for Participant Loans in Employee Benefit Plan Financial Statements

Status: Consensus-for-exposure.

Affects: Entities that issue employee benefit plan financial statements.

Background: ASC 962-325-45-10 requires that participant loans be classified as investments, and ASC 962-325-35-1 prescribes that most investments held by a plan, including participant loans, be measured at fair value. Because ASC 820 defines fair value measurement as an exit price notion, some constituents have questioned whether estimating the fair value of a participant loan in accordance with ASC 820 is appropriate given that such measurement would necessitate the use of highly subjective assumptions (e.g., the market interest rate and the credit risk of the participant). Further, since users of the plan financial statements are participants themselves (and regulators), these constituents believe that showing an amount other than the unpaid balance for such loans would be misleading to financial statement users.

This Issue addresses the following:

- How participant loans held by a defined contribution plan should be classified in the statement of net assets available for benefit.
- The appropriate measurement basis for a participant loan.

Summary: At its July 2010 meeting, the Task Force reached a consensus-for-exposure that participant loans should be classified as notes receivables and measured at amortized cost plus accrued interest.

Effective Date and Transition: The Task Force will discuss the effective date at its September 15–16, 2010, meeting. However, to allow benefit plans that will be filing their financial statements during October 2010 to adopt the final consensus, the Task Force decided to expose the consensus-for-exposure for a short comment period and reach a final consensus at its September 2010 meeting. This Issue must be applied retrospectively; early adoption is permitted.

Next Steps: The FASB ratified the consensus-for-exposure at the July 29, 2010, EITF meeting. The FASB staff will issue an exposure draft of a proposed ASU in the near future.

[10] FASB Statement No. 52, *Foreign Currency Translation.*

Issue 10-D Accounting for Certain Fees Associated With Recently Enacted Health Care Legislation

Status: Consensus-for-exposure.

Affects: Entities that are required to pay the U.S. government a fee calculated on the basis of sales of qualifying branded prescription drugs to any federal government program.

Background: On March 23 and March 30, 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, respectively (collectively referred to as the "Act"). This Issue focuses on one aspect of the Act: the annual fee (the "fee") payable to the federal government by pharmaceutical entities that sell branded prescription drugs to the federal government.

The nonrefundable fee is payable in each calendar year beginning on or after January 1, 2011, and must be paid by September 30 of that year. The federal government allocates the annual fee, which ranges from $2.5 billion to $4.1 billion, to certain entities for qualifying sales to the federal government on the basis of the entity's branded prescription drug sales for the preceding year as a percentage of the industry's branded prescription drug sales for that same year. The sales included in the calculation are reduced for entities with branded prescription drug sales of less than $400 million on a sliding scale and eliminated entirely for entities with branded prescription drug sales of less than $5 million.

This Issue addresses the following classification and recognition issues:

- How the fee should be classified in a reporting entity's income statement.
- When the fee should be recognized as an expense.

Summary: At its July 2010 meeting, the Task Force reached a consensus-for-exposure that (1) the annual fee should be classified as an operating expense and (2) when the annual fee is recognized as a liability, a corresponding asset should be recognized and amortized to expense over the calendar year. The Task Force agreed with the FASB staff's recommendation that no additional disclosures should be required; however, entities should consider other disclosure requirements (e.g., disclosure in MD&A for SEC registrants).

Effective Date and Transition: Because the scope of this Issue involves annual fees that will be incurred in 2011, transition guidance is not applicable.

Next Steps: FASB ratification is expected at the Board's August 18, 2010, meeting, after which the consensus-for-exposure will be exposed for comment.

Administrative Matters

Issue 10-E, "Debtor's Accounting for Real Estate Subject to a Nonrecourse Mortgage in Default Prior to Forfeiture" — The FASB chairman added this Issue to the EITF agenda in June 2010. The Task Force will discuss this Issue at a future meeting.

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