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EITF Snapshot.

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This *EITF Snapshot* summarizes the November 19, 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 December 1, 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-H Health Care Entities: Revenue Recognition

Status: Final consensus.

Affects: Health care organizations (HCOs).

Background: The guidance in ASC 954-605[1] 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 HCOs record no revenue (i.e., charity care is the term used for services provided without expectation of remuneration to patients who meet certain guidelines established by the HCO).

This Issue contemplates (1) services provided to self-pay patients (uninsured), (2) services rendered that are not covered by insurance, or (3) amounts related 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 billable rates 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 previous meetings, the Task Force discussed the revenue recognition model for HCOs and whether collectibility must be reasonably assured before revenue is recognized. At these meetings, the Task Force discussed the following models of revenue recognition:

- Collectibility must be reasonably assured before an HCO recognizes revenue.
- Collectibility does not have to be reasonably assured before an HCO recognizes revenue; rather, collectibility should be considered during measurement of revenue upon 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. Any subsequent changes in collectibility (due to credit risk) would be recognized as other income or expense.
- 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.
- Revenue would be recognized in accordance with an HCO's current recognition policies; however, an entity would provide additional disclosures about revenue, bad-debt expense, and how management evaluates receivables.

[1] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

At its September 2010 meeting, the Task Force reached a consensus-for-exposure that would not affect current recognition policies but would require HCOs to provide additional disclosures by major payer sources of revenue. These disclosures would include:

- An HCO's policy for assessing collectibility with respect to the timing and amount of revenue and bad-debt expense recognized.
- An HCO's net revenue.
- A tabular reconciliation of activity in the allowance for doubtful accounts for the period.

The proposed ASU specifies that in the preparation of these disclosures, the major payer sources of revenue must be (1) identified by the HCO and (2) consistent with how the HCO manages its business. Further, the Task Force requested that the proposed ASU solicit feedback from constituents on (1) whether the disclosure of net revenue should be further segregated by type of service (e.g., emergency care, elective services), (2) the cost or effort to prepare the disclosures, and (3) whether the disclosure requirements achieve the objective of the project or whether the Task Force should address the Issue by changing the presentation requirements for an entity's revenue line item in the income statement.

At its November 2010 meeting, the Task Force considered comments received on the exposure draft and reached a final consensus that an HCO must present bad-debt expense as a separate line item within net revenues in the statement of operations. The Task Force noted that this presentation would result in categories similar to the following in the revenue section of the statement of operations:

- "Revenues adjusted for discounts."
- "(Less bad-debt expense)."
- "Net revenues."

However, the FASB staff may alter the wording of the line item descriptions in the final ASU.

In addition, in a manner consistent with the exposure draft, the Task Force reached a final consensus that an HCO must disclose, **by major payer sources of revenue,** (1) its policy for assessing collectibility with respect to the timing and amount of revenue and bad-debt expense recognized, (2) revenue (before adjustment for bad-debt expense), and (3) a tabular reconciliation of activity in the allowance for doubtful accounts for the period. The Task Force emphasized that the definition of major payer sources of revenue will not be prescribed by the final ASU but will be based on how the HCO manages its business.

Effective Date and Transition: This Issue will be effective for public entities for fiscal years (and interim periods within those years) beginning after December 15, 2010. For private entities, the Issue will be effective for fiscal years (and interim periods within those years) beginning after December 15, 2011. Early adoption is permitted.

The requirement to present bad debt separately within revenues on the face of the performance statement is effective retrospectively; however, the disclosure requirements are effective prospectively.

Next Steps: FASB ratification is expected at the Board's December 1, 2010, meeting.

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

Status: Final consensus.

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.

This Issue addresses how an entity should perform step 1 of the goodwill impairment test when the net assets of the reporting entity are zero or 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).

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 September 2010 meeting, the Task Force reached a consensus-for-exposure that (1) an entity should use an equity premise when performing step 1 of the goodwill impairment test and (2) if a reporting unit has a zero or negative carrying amount, the entity must assess, considering qualitative factors such as those listed in ASC 350-20-35-30 (these factors are not all-inclusive), whether it is more likely than not that a goodwill impairment exists (i.e., if it is more likely than not that a goodwill impairment exists, step 2 must be performed).

At its November 2010 meeting, the Task Force considered comments received on the exposure draft and reached a final consensus to (1) not prescribe a specific method of calculating the carrying value of a reporting unit (a change from the consensus-for-exposure) in the performance of step 1 of the goodwill impairment test and (2) require entities with a zero or negative carrying value to assess, considering qualitative factors such as those listed in ASC 350-20-35-30 (these factors are not all-inclusive), whether it is more likely than not that a goodwill impairment exists (confirming this aspect of the consensus-for-exposure). If an entity concludes that it is more likely than not that a goodwill impairment exists, the entity must perform step 2 of the goodwill impairment test. The Task Force also directed the staff to clarify, in the Basis for Conclusions, (1) why the Task Force decided not to require entities to use a specific premise (i.e., enterprise value or equity value) in determining the carrying value of a reporting unit in the performance of step 1 of the goodwill impairment test and (2) that the assets and liabilities used to determine the carrying value and fair value of a reporting unit need to be consistent.

Effective Date and Transition: For public entities, the Issue will be effective for impairment tests performed during entities' fiscal years (and interim periods within those years) that begin after December 15, 2010. Early application will not be permitted.

For nonpublic entities, the Issue will be effective for impairment tests performed during entities' fiscal years (and interim periods within those years) that begin after December 15, 2011. Early application for nonpublic entities is permitted; nonpublic entities that elect early application will use the same effective date as that for public entities.

Upon adoption (i.e., beginning of the entity's fiscal year), an entity that has a reporting unit with a zero or negative carrying value must assess, on the basis of current facts and circumstances, whether it is more likely than not that a goodwill impairment exists. If so, the entity must perform step 2 of the goodwill impairment test on the day of adoption and record the impairment charge, if any, as a cumulative-effect adjustment through beginning retained earnings.

Next Steps: FASB ratification is expected at the Board's December 1, 2010, meeting.

Issue 10-D Fees Paid to the Federal Government by Pharmaceutical Manufacturers

Status: Final consensus for the original issue; consensus-for-exposure for the additional issue (noted below).

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. A separate issue was added for entities that provide health insurance and are required to pay the U.S. government a fee calculated on the basis of net premiums and third-party administrative agreement fees.

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 specified federal government programs in that calendar year.

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 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. However, the fee is only payable if the entity has sales of branded prescription drugs to specified programs in the year the fee is due. That is, an entity would not be assessed an annual fee in a calendar year in which it had no branded prescription drug sales to the government programs even if it had sales in the prior year.

This Issue addresses the following classification and recognition issues:

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

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 (i.e., when it becomes payable to the government once the entity has a gross receipt from a branded prescription drug sale to a specified government program in the applicable year), 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).

At its November 2010 meeting, the Task Force considered comments received on the exposure draft and confirmed its previous consensus-for-exposure that (1) annual fees should be classified as an operating expense and (2) when the annual fee is recognized as a liability (i.e., when it becomes payable to the government once the entity has a gross receipt from a branded prescription drug sale to a specified government program in the applicable year), a corresponding asset should be recognized and amortized to expense over the calendar year.

The Task Force also discussed comments received from health insurance organizations that the annual fee assessed on health insurers under the Act is similar to the annual fee assessed on pharmaceutical manufacturers and should therefore be classified and recognized similarly to the annual fee paid by pharmaceutical manufacturers to the federal government. The Task Force reached a consensus-for-exposure that the annual fee assessed on health insurance entities (1) should be classified and recognized in a manner consistent with the annual fee assessed on pharmaceutical manufacturers and (2) is not considered a deferred acquisition cost, as described in ASU 2010-26.[2] The Task Force also decided to expose its consensus on the annual fee assessed on health insurers as part of a new EITF Issue.

Effective Date and Transition: This Issue will be effective for an entity's calendar years beginning after December 31, 2010.

Next Steps: FASB ratification is expected at the Board's December 1, 2010, meeting, after which the final ASU on Issue 10-D will be issued. The FASB will separately expose for public comment the EITF's consensus-for-exposure on the annual fee assessed on health insurers under the Act.

Issue 10-E Accounting for Deconsolidation of a Subsidiary That Is In-Substance Real Estate

Status: No consensus reached.

Affects: Entities that are considering whether to deconsolidate a subsidiary that is in-substance real estate.

Background: In acquiring commercial real estate, an investor may establish a special-purpose entity subsidiary that is capitalized, in whole or in part, with nonrecourse debt to hold the real estate. These special-purpose entities consist primarily of the acquired real estate and accordingly are considered in-substance real estate in accordance with ASC 360-20-15.

[2] FASB Accounting Standards Update No. 2010-26, *Accounting for Costs Associated With Acquiring or Renewing Insurance Contracts* — a consensus of the FASB Emerging Issues Task Force.

This Issue addresses whether the guidance in ASC 360-20 on sales of real estate applies to all derecognition events involving subsidiaries that are in-substance real estate. For example, in the event of default on the nonrecourse debt, the investor may transfer control over the special-purpose entity, including the property, to the lender. Alternatively, the lender may take control over the operations of the entity and property before a legal transfer in the event of default based on provisions in the debt arrangement. This Issue would also apply when the lender who has attained control over an entity that is in-substance real estate subsequently surrenders that control to a third party or the original investor (e.g., debt default is cured). Another example included in this Issue illustrates a situation in which control over a special-purpose entity that is considered in-substance real estate passes from one investing partner to another on the basis of changes to the partnership arrangement.

Views differ on whether, in such circumstances, the investor must apply the guidance in ASC 360-20 on derecognizing real estate from the statement of financial position as well as the guidance in ASC 810-10 on deconsolidation of a special-purpose entity that is in-substance real estate.

If the investor must apply the guidance in ASC 360-20, the requirement to recognize a "sale" and derecognize the real estate generally would not be met before the legal transfer of title to the real estate. Thus, the investor would continue to include the real estate, debt, and results of the entity's operations in its consolidated financial statements until the conditions in ASC 360-20 for derecognition are met.

However, if ASC 360-20 does not apply, the investor must deconsolidate the special-purpose entity pursuant to ASC 810-10. Therefore, provided that control over the entity has transferred to the lender, the investor would derecognize the real estate and debt in its consolidated statement of financial position and would no longer include the entity's operations in its consolidated income statement. In the case of a loss of control pursuant to a debt default, the investor generally would recognize a gain as a result of derecognizing a liability, with a carrying amount in excess of the carrying amount of the real estate (after any impairment loss when the real estate is reduced to fair value). The investor would continue to report its interest in the special-purpose entity in accordance with either ASC 323 or ASC 325, whichever is appropriate.

Summary: At its September 2010 meeting, the Task Force reached a preliminary consensus that a reporting entity must apply the guidance in ASC 360-20 to determine whether to derecognize real estate held in a subsidiary that was considered in-substance real estate when the reporting entity relinquishes control over the special-purpose entity. However, some Task Force members expressed concerns about how this preliminary consensus would affect financial institutions that obtain control of in-substance real estate entities as a result of default or foreclosure. Accordingly, the Task Force directed the FASB staff to perform additional user outreach to understand the impact of the Issue and bring back the results of the outreach for further EITF consideration at a future meeting.

At its November 2010 meeting, the Task Force continued its deliberations on this Issue. The Task Force reached a preliminary consensus that a reporting entity must apply the guidance in ASC 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. Further, the Task Force directed the FASB staff to form a working group to discuss how the guidance in the preliminary consensus interacts with the consolidation guidance in ASC 810-10 and, potentially, other guidance such as guidance on troubled debt restructurings.

Effective Date and Transition: The Task Force will discuss the effective date at a later meeting.

Next Steps: The FASB staff will form a working group to further develop this Issue.

Issue 10-F Accounting for Legal Costs Associated With Medical Malpractice and Similar Claims

Status: No consensus reached.

Affects: HCOs.

Background: Under ASC 954-450-25-2, an HCO is required to accrue costs associated with “litigating or settling claims” when “incidents that give rise to the claims occur.” This industry-specific guidance for HCOs is different from the SEC guidance for other industries in ASC 450-20-S99-2, which permits entities to elect, as an accounting policy, to either expense legal fees as incurred or accrue estimated legal fees when the associated claim is incurred.

This Issue addresses whether the industry-specific requirement that HCOs accrue legal costs related to litigating medical malpractice claims or similar claims before those costs are incurred should be eliminated so that the accounting guidance in ASC 954-450-25-2 is aligned with the guidance in ASC 450-20-S99-2.

Summary: At its July 2010 meeting, the Task Force considered whether it 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.

At its November 2010 meeting, the Task Force considered comments received on the exposure draft. On the basis of the feedback received and to avoid creating alternative accounting practices in this industry, the Task Force decided to suspend further deliberation on this Issue and to remove it from the EITF's agenda. Thus, this Issue will not amend ASC 954-450-25-2.

Effective Date and Transition: Not applicable.

Next Steps: Not applicable.

Issue 10-G Disclosure of Supplementary Pro Forma Information for Business Combinations

Status: Final consensus.

Affects: Public entities that have entered into a material business combination or a series of immaterial business combinations that are material in the aggregate.

Background: ASC 805 requires public entities to disclose certain pro forma information for business combinations that occurred during the reporting period. Specifically, ASC 805-10-50-2(h) requires the following disclosures (in part):

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

This Issue addresses whether the pro forma financial information 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.

Summary: At its September 2010 meeting, the Task Force reached a consensus-for-exposure that an entity should present the pro forma disclosures as if the business combination occurred at the beginning of the prior annual period when preparing the pro forma financial information for both the current and prior reporting periods. The Task Force also reached a consensus that the disclosures under ASC 805 should be accompanied by a narrative description about the nature and amount of material, nonrecurring pro forma adjustments.

At its November 2010 meeting, the Task Force considered comments received on the exposure draft and reached a final consensus that if comparative financial statements are presented, an entity should present the pro forma disclosures as if the business combination occurred at the beginning of the prior annual period when preparing the pro forma financial information under ASC 805. The Task Force also reached a final consensus that entities must provide additional disclosures describing the nature and amount of material, nonrecurring pro forma adjustments. However, the FASB staff noted that the current requirements in Article 10 of Regulation S-X, "Interim Financial Statements," would conflict with the Task Force's final consensus. In response, the SEC observer noted that the SEC is aware of the conflict and will consider amending Article 10 of Regulation S-X to make it consistent. In the meantime, an entity should follow the guidance in this Issue and disclose the required pro forma financial information in its SEC filings.

Effective Date and Transition: This Issue will be effective for business combinations consummated in periods beginning after December 15, 2010, and should be applied prospectively as of the date of adoption. Early adoption is permitted.

Next Steps: FASB ratification is expected at the Board's December 1, 2010, meeting.

Administrative Matters

At the EITF agenda call meeting on October 6, 2010, the EITF and FASB discussed a potential new Issue related to cash flow statement presentation of derivative instruments with an other-than-insignificant financing element. The FASB decided not to add this Issue to the EITF's agenda. The EITF's next meeting is scheduled for March 24, 2011.

In addition, as discussed above under Issue 10-D, the FASB added to the EITF's agenda a new Issue related to accounting for fees paid to the federal government by health insurers.

FASB Announcement: Ms. Judith O'Dell will serve as the FASB's Private Company Financial Reporting Committee (PCFRC) observer at future EITF meetings. As PCFRC observer, Ms. O'Dell will represent the interests of nonpublic business entities. However, she will not have voting rights.

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