

EITF Snapshot.

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This *EITF Snapshot* summarizes the June 23, 2011, 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 July 13, 2011, 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: Presentation of the Provision for Bad Debts and Disclosures of Net Revenue and the Allowance for Doubtful Accounts**

Status: Final consensus.

Affects: Health care organizations (HCOs).

Background: The guidance in ASC 954-605¹ 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. An HCO may be required by law or stated mission to provide services to patients, regardless of the HCO's ability to collect remuneration (e.g., emergency care). 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 from patients who meet certain guidelines established by the HCO).

This Issue contemplates services provided to self-pay patients and 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 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.
- 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.

At its September 2010 meeting, the Task Force reached a consensus-for-exposure that HCOs would continue to follow their current recognition policies but would be required to provide additional disclosures by major payer sources of revenue.

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 November 2010 meeting, the Task Force considered comments received on its consensus-for-exposure and reached a final consensus that an HCO would recognize revenue in accordance with its current policies but 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:

- Revenue (net of contractual allowances and discounts).
- Less: provision for bad debts.
- Net revenue less provision for bad debts.

In addition, in a manner consistent with the exposure draft, the Task Force also concluded 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 (net of contractual allowances and discounts) 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 would not be prescribed by the final ASU but would be based on how the HCO manages its business.

Before issuance of the final ASU, a constituent raised implementation and operational concerns regarding the final consensus. On the basis of these concerns, the FASB decided, at its meeting on December 8, 2010, to expose the final consensus for public comment.

At its June 2011 meeting, the Task Force considered comments received on the exposure draft and refined the scope of its consensus. The Task Force affirmed its final consensus that an HCO would recognize revenue in accordance with its current policies. The presentation guidance would be limited to HCOs that perform services for patients for which the ultimate collection of all or a portion of the amounts billed or billable cannot be determined at the time services are rendered (i.e., whether by law or stated mission the HCO cannot deny services on the basis of the patient's creditworthiness). Such HCOs, in accordance with the Task Force final consensus, would present all bad-debt expense associated with patient service revenue as an offset (in a separate line item) to the patient service revenue (net of contractual allowances and discounts) line item in the statement of operations. This presentation would be limited to patient service revenue and would not apply to bad debts associated with any other types of revenues (i.e., bad debts associated with other types of revenues would be classified as operating expenses). In addition, HCOs that are not within the scope noted above would continue to present bad debts as an operating expense, even those associated with patient services.

Editor's Note: The Task Force's final consensus achieves results similar to the FASB's current deliberations of its revenue recognition project, which does not include a requirement to assess collectibility and would require presentation of bad debt as an offset to the revenue line item in the statement of operations.

The Task Force also reached a final consensus to modify the disclosures in the exposure draft and instead require an HCO to provide (1) qualitative disclosures about its policy for recognizing revenue and bad-debt expense for transactions within the scope of this Issue and (2) quantitative information about the effects of changes in the assessment of the collectibility of patient service revenue. The SEC observer present at the meeting noted that public entities would still need to consider the requirements of Schedule II (Regulation S-X, Rule 5-04²).

**Effective Date
and Transition:**

This Issue will be effective for public entities for fiscal years beginning after December 15, 2011, and interim periods within those fiscal years. For nonpublic entities, the Issue will be effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. Early adoption would be permitted. Entities must apply the presentation requirements retrospectively; however, the qualitative and quantitative disclosures are only required to be provided prospectively.

Next Steps:

FASB ratification is expected at the Board's July 13, 2011, meeting, after which the final ASU will be issued.

² SEC Regulation S-X, Rule 5-04, "What Schedules Are to Be Filed."

Issue 10-E

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

Status: Consensus-for-exposure.

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.

This Issue addresses whether the guidance in ASC 360-20 on sales of real estate applies to 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. Questions also arise 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 would be 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 on sales of real estate 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 of this Issue. The Task Force affirmed its 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.

At its June 2011 meeting, the Task Force considered feedback received from the working group. The Task Force decided to narrow the scope of this Issue and reached a consensus-for-exposure that an investor that consolidates a single-purpose entity that is capitalized, in whole or in part, with nonrecourse debt used to purchase real estate should apply the guidance in ASC 360-20 to determine whether to derecognize real estate owned by the in-substance real estate entity. No additional disclosures would be required.

The Task Force decided not to address as part of this Issue the applicability of ASC 360-20 to other derecognition scenarios involving in-substance real estate. Such scenarios may include when (1) a lender that attains 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) or (2) 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. These issues, particularly the applicability of ASC 360-20 to the lender when it attains control over an entity that is in-substance real estate, will be considered as part of future agenda decisions.

The Task Force also discussed whether the Board should add a project to the FASB's agenda to address how nonrecourse debt and related real estate assets should be subsequently measured (e.g., whether the nonrecourse debt should be factored into the impairment analysis of the real estate assets under ASC 360-10). The Task Force did not recommend that this issue be added to the Board's agenda.

Effective Date and Transition:

This Issue would be applied prospectively. Entities would apply the disclosure requirements in ASC 250-10-50 for an accounting change that results from the adoption of this Issue. The Task Force will discuss the effective date at a later meeting.

Next Steps:

FASB ratification is expected at the Board's July 13, 2011, meeting, after which the consensus-for-exposure will be exposed for comment.

Issue 10-H

Fees Paid to the Federal Government by Health Insurers

Status:

Final consensus.

Affects:

Entities that provide health insurance and are required to pay the U.S. government a fee calculated on the basis of net written premiums.

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 health insurers.

The nonrefundable fee is payable in each calendar year beginning on or after January 1, 2014, and must be paid by September 30 of that year. The federal government allocates the annual fee, which starts at \$8 billion, to health insurance entities on the basis of the entity's net premiums written (related to health insurance) for the preceding year as a percentage of the total net premiums written (with respect to health insurance) for all U.S. health insurance providers. However, the fee is only payable if the entity provides health insurance 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 did not provide health insurance even if it provided health insurance 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 November 2010 meeting, the Task Force reached a consensus-for-exposure that the accounting for the annual fee should be consistent with its final consensus on Issue 10-D (issued as ASU 2010-27³). That is, the annual fee should be (1) classified as an operating expense and (2) recognized as a liability in the year payable when the entity provides health insurance, with a corresponding asset recognized that is amortized to expense over the applicable calendar year. The Task Force concluded that a straight-line method would be used to amortize the corresponding asset to expense unless there is a better method for allocating the fee over the year in which it is payable. In addition, the Task Force reached a consensus that the annual fee is not considered a deferred acquisition cost, as described in ASU 2010-26.⁴

³ FASB Accounting Standards Update No. 2010-27, *Fees Paid to the Federal Government by Pharmaceutical Manufacturers* — a consensus of the FASB Emerging Issues Task Force.

⁴ 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.

At its June 2011 meeting, the Task Force considered comments received on the exposure draft and reaffirmed its consensus-for-exposure as a final consensus.

**Effective Date
and Transition:**

This Issue will be effective for calendar years beginning after December 31, 2013.

Next Steps:

FASB ratification is expected at the Board's July 13, 2011, meeting, after which the Board will issue a final ASU.

Administrative Matters

The EITF's next meeting is scheduled for September 1, 2011.

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The purpose of this publication is to briefly describe matters discussed at the most recent meeting of the Emerging Issues Task Force. This summary was prepared by Deloitte's National Office Accounting Standards and Communications Group. Although this summary of the discussions and conclusions reached is believed to be accurate, no representation can be made that it is complete or without error. Official meeting minutes are prepared by the Financial Accounting Standards Board staff and are available approximately three weeks after each meeting. The official meeting minutes sometimes contain additional information and comments; therefore, this meeting summary is not a substitute for reading the official minutes. In addition, tentative conclusions may be changed or modified at future meetings.

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