

## EITF Snapshot.

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This *EITF Snapshot* summarizes the March 18, 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 March 31, 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.

**Codification** — With the launch of the FASB Accounting Standards Codification (ASC) on July 1, 2009, all EITF Issues are finalized as ASUs. The numbering system for EITF Issues (i.e., before their finalization as ASUs) has also changed. Rather than being assigned a number that corresponds to the year and that Issue’s spot in the progression (e.g., Issue 08-1 was the first Issue in 2008), a new Issue will be assigned a number that corresponds to the year in which it was added and a letter for where it falls in the progression. For example, the first EITF Issue added in 2010 will be referred to as Issue 10-A. The numbering used for previous EITF Issues under the old system will not change.

**Proposed Effective Dates** — New exposure drafts issued on the basis of consensuses-for-exposure will no longer include proposed effective dates. Instead, future exposure drafts will ask respondents to comment on the effort involved in implementing the proposed updates, which the Task Force will consider during final deliberations in determining the effective date.

**Basis for Conclusions** — New exposure drafts and final ASUs issued after the March 2010 meeting will include a basis for conclusions and dissenting views, if applicable.

### Issue 08-9 Milestone Method of Revenue Recognition

**Status:** Final consensus.

**Affects:** Entities that enter into research or development arrangements involving deliverables or units of accounting in which a vendor satisfies its performance obligations over time and all or a portion of the arrangement consideration is contingent upon the achievement of a milestone. This Issue is not limited to a particular industry.

**Background:** This Issue was initially developed as part of Issue 08-1. (For more information, see Deloitte’s [September 2009 EITF Snapshot](#) and [October 1, 2009, Heads Up](#).) The objective of this Issue is to establish a revenue recognition model for contingent consideration that is payable upon the achievement of an uncertain future event, referred to as a milestone. More specifically, a milestone is defined as an event that results in additional consideration, whose achievement at the inception of the arrangement is substantively uncertain, and whose achievement is based on or results from the vendor’s performance. In certain situations, the entire amount of consideration that is contingent upon the achievement of the milestone is recognized as revenue in the period in which the contingency is achieved. This accounting model is commonly referred to as the milestone method.

This Issue will require entities to determine whether the milestone method is appropriate for a particular research or development arrangement by first identifying all milestones in the arrangement and then individually assessing, only at inception of the arrangement, whether those milestones are substantive. A milestone is considered substantive if consideration earned from achievement of the milestone (1) is commensurate with either the vendor’s performance to achieve the milestone or the enhancement of the

value of the delivered item, (2) relates solely to past performance, and (3) is reasonable in comparison to all of the deliverables and payment terms in the arrangement. The Issue also requires certain quantitative and qualitative disclosures about the arrangements to which an entity elects to apply the milestone method. The Issue will specify that the milestone method is not the only acceptable revenue attribution model; however, an entity must consistently apply the milestone method to similar arrangements.

**Summary:**

The Task Force previously discussed this Issue during 2008 and 2009. After the March 2009 EITF meeting, the Task Force issued an exposure draft proposing that the milestone method is an appropriate proportional performance method of revenue recognition for entities that enter into arrangements containing consideration that is contingent upon the achievement of substantive milestones. In that consensus-for-exposure, the Task Force acknowledged that the milestone method is only one acceptable revenue attribution model for such arrangements and that entities should apply the revenue recognition model that is most appropriate given the facts and circumstances.

At the June 2009 EITF meeting, the Task Force considered whether to change the milestone method, as described in this Issue, from an optional revenue recognition model for milestone (bonus) payments to make it the only model that is appropriate for milestone payments. At its September 2009 meeting, the Task Force decided that if an entity recognizes milestone payments in their entirety upon achievement of an event or circumstance, the entity would be required to apply the milestone method of revenue recognition, as described in Issue 08-9.

Also at the September meeting, the Task Force discussed whether the example in the Issue summary, which describes a customer service call-center that receives fixed bonus payments if a certain level of customer satisfaction rating is achieved, should be within the scope of this Issue. Some Task Force members suggested that the scope be limited to development-type arrangements and directed the FASB staff to further study the implications of changing the scope for presentation at a future meeting.

At the March 2010 EITF meeting, the Task Force reached a final consensus to (1) limit the scope of this Issue to research **or** development arrangements and (2) require that guidance in this Issue be met for an entity to apply the milestone method (record the milestone payment in its entirety in the period received). However, the Task Force clarified that, even if the requirements in this Issue are met, entities would not be precluded from making an accounting policy election to apply another appropriate accounting policy that results in the deferral of some portion of the arrangement consideration.

The Task Force also reached a consensus not to limit the scope of this Issue to a single-deliverable arrangement, as was proposed in the exposure draft. Therefore, the guidance in this Issue will apply to milestones in multiple-deliverable arrangements involving research or development transactions.

**Effective Date**

**and Transition:**

This Issue will be effective for fiscal years (and interim periods within those fiscal years) beginning on or after June 15, 2010. Early application is permitted. Entities can apply this guidance prospectively to milestones achieved after adoption. However, retrospective application to all prior periods is also permitted.

**Next Steps:**

FASB ratification is expected at the Board's March 31, 2010, meeting.

**Issue 09-B**

**Consideration of an Insurer's Accounting for Majority Owned Investments When the Ownership Is Through a Separate Account**

**Status:**

Final consensus.

**Affects:**

Insurance companies that have a majority interest in an investment fund through interests held by the separate accounts or through a combination of interests held by the general and separate accounts. This Issue applies to the insurance industry.

**Background:**

An insurance company often establishes separate accounts that legally protect the contract holder's assets from the company's general creditors. The contract holders (insured individual or organization) typically are given several investment options to choose from (e.g., mutual funds). While the contract holders control all investment allocation decisions and are entitled to all returns on the investments (less a management fee paid to the insurance company), the insurance company typically has the ability to vote any shares on behalf of the contract holders. The insurance company may also have direct investments in these same investment funds through interests held in its general account.

Under ASC 944-80<sup>1</sup> (formerly SOP 03-1<sup>2</sup>), the insurance company is required to measure the investments within its separate accounts at fair value and present these amounts as summary totals, apart from the general accounts of the insurance company, on the face of the consolidated statement of financial position if certain criteria are met (listed in ASC 944-80-25-3). The predominant current practice is for insurance companies not to fully consolidate an investment fund unless the insurance company's general account has a direct, majority interest in the investment fund (e.g., a direct interest of more than 50 percent). However, in practice, insurance companies often proportionately consolidate any direct investment in an investment fund (through the general accounts) if a majority interest in that investment fund is held in combination by both the general and separate accounts.

At issue are the following:

- Whether an insurance company should fully consolidate an investment fund when a majority interest is held by the separate accounts or through a combination of its separate accounts and general accounts.
- If the insurance company consolidates an investment fund under this Issue, how the consolidated mutual fund should be reflected in the financial statements of the insurer.

**Summary:**

After its September 2009 meeting, the Task Force issued an exposure draft that proposed the principle that an insurer is not required to combine its general account interest with any separate account interests when assessing whether the insurer has a controlling financial interest in an entity that is not a variable interest entity. Thus, an insurance company would not be required to consolidate an investment fund that is not a variable interest entity that is controlled by the separate accounts or through a combination of interests held by the general and separate accounts. The Task Force also discussed the current industry practice in which the insurance company may apply proportionate consolidation to its direct investment in a mutual fund (through the general accounts) if a majority interest in that mutual fund is held in combination by both the general and separate accounts. Although no decision was reached at the September 2009 meeting, the Task Force requested feedback from constituents, in an invitation to comment, on how the general fund's investments should be presented in these situations.

At the March 2010 meeting, the Task Force considered the comments received on the exposure draft of this Issue and reaffirmed its principle that separate account interests are not required to be combined with an insurer's general account interests and its consensus-for-exposure that an insurance entity should not consolidate a voting interest investment fund when the insurance entity holds a majority of the voting interest through its separate accounts or through a combination of its separate accounts and general accounts.

The Task Force also reached a final consensus to expand the scope of this Issue to provide guidance on how interest held by a separate account in an investment fund will affect the consolidation assessment under Statement 167's<sup>3</sup> amendments to ASC 810-10<sup>4</sup> (as amended by ASU 2009-17<sup>5</sup>). The Task Force expanded the application of the principle and concluded that in evaluating whether the investment fund is a variable interest entity and the insurance entity is the primary beneficiary, the insurance entity should not consider interests held through the separate accounts.

The Task Force also discussed whether additional guidance is needed on how an insurance entity should consolidate an investment fund in which the insurance entity owns a controlling financial interest and the separate account holders and unrelated third parties also hold equity interests. The Task Force reached a final consensus that an insurance entity should consolidate the investment fund by including the portion of the fund's assets that represent the contract holder's interest as separate account assets and the remaining portion of the fund assets, including the portion related to noncontrolling interests, in the general account of the insurance entity. An insurance entity would also record a corresponding liability for the separate account assets, and the portion related to noncontrolling interest would be included as a noncontrolling interest in the equity of the insurance entity, if the equity classification criteria are met.

**Effective Date**

**and Transition:**

This Issue would be effective for interim and annual periods beginning after December 15, 2010, and would have to be applied retrospectively to all prior periods. Early application would be permitted.

**Next Steps:**

FASB ratification is expected at the Board's March 31, 2010, meeting.

<sup>1</sup> FASB Accounting Standards Codification Subtopic 944-80, *Financial Services — Insurance: Separate Accounts*.

<sup>2</sup> AICPA Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*.

<sup>3</sup> FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*.

<sup>4</sup> FASB Accounting Standards Codification Subtopic 810-10, *Consolidation*.

<sup>5</sup> FASB Accounting Standards Update No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved With Variable Interest Entities*.

## Issue 09-F Casino Base Jackpot Liabilities

**Status:** Final consensus.

**Affects:** Entities that have gaming operations within the scope of ASC 924<sup>6</sup> (formerly AICPA Audit and Accounting Guide, *Casinos*).

**Background:** This Issue addresses diversity in practice in the accounting for base jackpots on gaming machines (e.g., slot machines). For nonprogressive jackpots, payouts are fixed on the basis of a gaming machine's predetermined pay table and the base jackpot is a fixed payout amount shown on this table. For progressive jackpots, payouts increase above the base as more customers play the machine(s) and the base jackpot is the reset amount after a jackpot is paid out (e.g., a progressive jackpot that is reset to \$100,000 after each jackpot is won). Progressive jackpots can sometimes be linked to multiple machines in the casino or at multiple locations via a network (the latter is referred to as a wide-area progressive jackpot).

Views differ on whether, if a casino entity can avoid payout of the base jackpot (e.g., upon removal of a gaming machine from the casino floor), the casino entity is required to accrue any amounts before the base jackpot is won.

The difference between the progressive jackpot and the base jackpot is referred to as the "incremental amount." In most gaming jurisdictions, the casino entity is required to pay out the incremental amount even if it removes a progressive jackpot machine from the casino floor. For example, the incremental amount may be transferred to another gaming machine or included as part of a cash giveaway. Because of this obligation, casino entities generally accrue the incremental amount.

**Summary:** The Task Force previously issued an exposure draft describing the principle that a casino entity should not accrue a base jackpot if future payment of that jackpot can be avoided (e.g., by removal of the machine from the casino floor).

At the March 2010 meeting, the Task Force considered comments received on the exposure draft of this Issue and confirmed its previous consensus-for-exposure. The Task Force also decided that in describing the principle, it would not be limited to base jackpots.

### Effective Date

**and Transition:** This Issue will be effective for interim and annual reporting periods beginning on or after December 15, 2010, and will be applied prospectively. Early application is permitted. A cumulative catch-up adjustment will be recorded in retained earnings as of the beginning of the period in which this Issue is adopted.

**Next Steps:** FASB ratification is expected at the Board's March 31, 2010, meeting.

## Issue 09-G Clarification of the Definition of Deferred Acquisition Costs of Insurance Entities

**Status:** Partial consensus reached.

**Affects:** Insurance entities that are within the scope of ASC 944<sup>7</sup> (formerly Statement 60<sup>8</sup>).

**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 are agent and broker commissions, salaries of certain employees involved in the underwriting and policy issuance functions, and medical and inspection fees.

<sup>6</sup> FASB Accounting Standards Codification Topic 924, *Entertainment — Casinos*.

<sup>7</sup> FASB Accounting Standards Codification Topic 944, *Financial Services — Insurance*.

<sup>8</sup> FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*.

**Summary:** The Task Force previously issued an exposure draft 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<sup>9</sup> (formerly Statement 91<sup>10</sup>) and (2) costs incurred for direct response advertising may be separately capitalized if they meet the criteria in ASC 340-20<sup>11</sup> (formerly SOP 93-7<sup>12</sup>).

At the 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 a consensus that only acquisition costs associated with successful efforts 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.

The Task Force also agreed that advertising costs should be accounted for under ASC 720-35 and ASC 340-20. However, the Task Force directed the FASB staff to perform further research, for discussion at a future meeting, on whether the recoverability of capitalized advertising costs should be assessed in accordance with the recoverability test in ASC 340-20 or ASC 944-60.

#### **Effective Date**

**and Transition:** The exposure draft proposed that this Issue would be effective for interim and annual reporting periods beginning on or after December 15, 2010, and would be applied prospectively; however, the Issue would provide an option for retrospective application. Early application would be permitted. The Task Force will redeliberate the effective date at a future meeting.

**Next Steps:** The Task Force will further deliberate the recoverability test for advertising costs and the effective date of the final Issue at its June 2010 meeting.

## **Issue 09-H Accounting by Healthcare Organizations (Revenue Recognition; Presentation of Insurance Claims and Related Insurance Recoveries; and Measuring Charity Care for Disclosure)**

**Status:** No consensus reached (revenue recognition).  
Consensus-for-exposure (presentation of liabilities related to medical malpractice and other similar claims, and disclosure of charity care).

**Affects:** Health care organizations (HCOs).

**Background:** This Issue addresses diversity in practice in the accounting by HCOs for (1) revenue recognition, (2) presentation of liabilities related to medical malpractice and other similar claims and related insurance recoveries, and (3) measurement basis for disclosing charity care in the financial statements.

<sup>9</sup> FASB Accounting Standards Codification Subtopic 310-20, *Receivables: Nonrefundable Fees and Other Costs*.

<sup>10</sup> FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated With Originating or Acquiring Loans and Initial Direct Costs of Leases*.

<sup>11</sup> FASB Accounting Standards Codification Subtopic 340-20, *Other Assets and Deferred Costs: Capitalized Advertising Costs*.

<sup>12</sup> AICPA Statement of Position 93-7, *Reporting on Advertising Costs*.

## **Revenue Recognition**

There is diversity in practice in 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. This Issue does not include charity care for which HCOs record no revenue (e.g., charity care in which HCOs provide services to patients that meet certain established guidelines). ASC 954-605-25-10<sup>13</sup> addresses revenue recognition for charity care:

Charity care does not qualify for recognition as revenue in the financial statements. Distinguishing charity care from bad-debt expense requires the exercise of judgment. Only the portion of a patient's account that meets the entity's charity care criteria shall be recognized as charity.

In 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, industry practice has been to adopt 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).

This Issue addresses whether collectibility should be reasonably assured before an HCO recognizes revenue.

## **Presentation of Liabilities Related to Medical Malpractice and Other Similar Claims**

ASC 954-450-25-2<sup>14</sup> (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<sup>15</sup> (formerly paragraphs 15, 20, and 24 of Issue 03-8<sup>16</sup>) should apply to HCOs. This guidance requires that the offsetting criteria in ASC 210-20-45-1<sup>17</sup> (formerly paragraph 5 of Interpretation 39<sup>18</sup>) 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 similar claims against related insurance recoveries.

## **Disclosure of Charity Care**

ASC 954-605-50-3 provides disclosure requirements for charity care. ASC 954-605-50-3 states:

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]

In accordance with the guidance above, HCOs may use different measurement attributes for disclosing charity care in their financial statements. This has resulted in lack of comparability of charity care disclosures.

This Issue will address the measurement attribute of charity care disclosures to improve comparability of reporting by HCOs.

## **Summary: Revenue Recognition**

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

<sup>13</sup> FASB Accounting Standards Codification Subtopic 954-605, *Health Care Entities: Revenue Recognition*.

<sup>14</sup> FASB Accounting Standards Codification Subtopic 954-450, *Health Care Entities: Contingencies*.

<sup>15</sup> FASB Accounting Standards Codification Subtopic 720-20, *Other Expenses: Insurance Costs*.

<sup>16</sup> EITF Issue No. 03-8, "Accounting for Claims-Made Insurance and Retroactive Insurance Contracts by the Insured Entity."

<sup>17</sup> FASB Accounting Standards Codification Subtopic 210-20, *Balance Sheet: Offsetting*.

<sup>18</sup> FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*.

a conclusion on this Issue, but directed the FASB staff to further explore the following two models of revenue recognition at a future meeting:

- Collectibility does not have to be reasonably assured before an HCO recognizes revenue. Collectibility should be considered in measurement, rather than 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 existing guidance; however, at inception, bad-debt expense would be netted against gross revenue in the net revenue line item. Subsequent changes in bad debt would be recorded as changes in either expense or other income.

#### ***Presentation of Liabilities Related to Medical Malpractice and Other Similar Claims***

The Task Force reached a consensus-for-exposure that presentation of an HCO's liability related to medical malpractice claims (and other similar claims) should not be offset against related insurance recoveries. Thus, HCOs would be required to apply offsetting guidance in a manner consistent with ASC 210-20. The Task Force also reached a consensus that no additional recurring disclosures will be required as a result of this consensus.

#### ***Disclosure of Charity Care***

The Task Force reached a consensus-for-exposure to require HCOs to disclose charity care at the cost of charity care provided. This consensus would eliminate the other measurement attributes available under ASC 954-605-50-3. The Task Force also reached a consensus that an HCO would be required to disclose, on a recurring basis, the measurement basis and the amount of charity care provided in each period.

#### **Effective Date and Transition:**

#### ***Revenue Recognition***

To be discussed at a future meeting.

#### ***Presentation of Liabilities Related to Medical Malpractice and Other Similar Claims***

In accordance with new policy, effective dates will not be included in the exposure draft. Respondents to the exposure drafts will be asked to comment on the effort involved in implementing the proposed update, which the Task Force will consider during final deliberations in determining the effective date. The Issue will require prospective application; however, if the HCO had not previously considered ASC 450<sup>19</sup> (formerly Statement 5<sup>20</sup>) separately in recognition of the receivable and liability and adoption results in a difference, the difference should be included as a cumulative-effect adjustment to the beginning balance of retained earnings.

#### ***Disclosure of Charity Care***

In accordance with new policy, effective dates will not be included in the exposure draft. Respondents to the exposure drafts will be asked to comment on the effort involved in implementing the proposed update, which the Task Force will consider during final deliberations in determining the effective date. The Issue will require retrospective application. Early application will be permitted.

#### **Next Steps:**

The Task Force will further deliberate the revenue recognition issue at the June 2010 meeting. FASB ratification of (1) the presentation of liabilities related to medical malpractice and other similar claims, and (2) charity care disclosure, is expected at the Board's March 31, 2010, meeting, after which the consensus-for-exposure will be exposed for comment.

## **Issue 09-I**

### **Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset**

**Status:** Final consensus.

**Affects:** Entities that modify a loan that is currently accounted for under ASC 310-30<sup>21</sup> (formerly SOP 03-3<sup>22</sup>) as part of a pool of loans that, when acquired, had deteriorated in credit quality.

<sup>19</sup> FASB Accounting Standards Codification Topic 450, *Contingencies*.

<sup>20</sup> FASB Statement No. 5, *Accounting for Contingencies*.

<sup>21</sup> FASB Accounting Standards Codification Subtopic 310-30, *Receivables: Loans and Debt Securities Acquired With Deteriorated Credit Quality*.

<sup>22</sup> AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*.

**Background:** ASC 310-30 provides guidance on certain acquired loans (1) that are acquired at a discount that is attributable, at least in part, to deterioration in the loans' credit quality since origination, and (2) for which it is probable that all contractually required payments will not be collected. In addition, ASC 310-30 allows an entity to group two or more acquired loans (other than debt securities) with common risk characteristics into a pool and account for the pool as a single asset. ASC 310-30-40-1 requires that loans within the pool remain in place unless "the investor sells, forecloses, or otherwise receives assets in satisfaction of the loan, or the loan is written off."

ASC 310-40<sup>23</sup> (formerly Statement 15<sup>24</sup>) provides creditors with guidance on determining whether a loan modification should be considered a troubled debt restructuring. ASC 310-40 defines a troubled debt restructuring as follows:

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

At issue are the following:

- If an entity "grants a concession to the debtor that it would not otherwise consider" and that loan is part of a pool accounted for under ASC 310-30, whether the entity should remove that loan from the pool and account for the modification as a troubled debt restructuring.
- If a modified loan is removed from a pool, how the carrying amount of that loan should be determined (i.e., on the basis of the effective rate of the pool or of the individual loan).

**Summary:** After the November 2009 meeting, the Task Force issued an exposure draft that proposed that a modification to a loan that is part of a pool accounted for under ASC 310-30 should not result in removal of the loan from the pool. Such modifications would include those that would otherwise qualify as a troubled debt restructuring had the loan not been part of a pool. The basis for this is the guidance in ASC 310-30 specifying that the unit of accounting is the pool of loans and that the integrity of the pool should be maintained.

At the March 2010 meeting, the Task Force considered the comments received on its exposure draft and reaffirmed its consensus-for-exposure that entities should not evaluate whether a modification of loans (that are part of a pool accounted for under ASC 310-30) meets the criteria for a troubled debt restructuring in ASC 310-40. Therefore, modified loans should not be removed from the pool unless any of the criteria in ASC 310-30-40-1 are met. The Task Force also reached a consensus that the final Issue will permit a one-time election for entities to change the unit of accounting from a pool basis to an individual loan basis. Such an election would be applied on a pool-by-pool basis. This would allow entities that have made the election to apply the guidance in ASC 310-40 on troubled debt restructurings to future loan modifications.

The Task Force also reconsidered whether entities should disclose additional information about modifications to loans that are part of pools and reached a final consensus not to include additional disclosures as part of this Issue. Instead, the Task Force noted that such disclosures will be addressed as part of the FASB's [project](#) on credit quality and the allowance for credit loss disclosures. The Task Force also reached a final consensus not to provide additional guidance on determining the carrying amount of the loan removed from the pool when any of the criteria in ASC 310-30-40-1 are met.

### **Effective Date**

**and Transition:** This Issue will be effective for any modifications of a loan or loans accounted for within a pool in the first interim or annual reporting period ending after July 15, 2010, and will be applied prospectively. Early application is permitted as long as the entity has not issued financial statements in that fiscal year.

**Next Steps:** FASB ratification is expected at the Board's March 31, 2010, meeting.

<sup>23</sup> FASB Accounting Standards Codification Subtopic 310-40, *Receivables: Troubled Debt Restructurings by Creditors*.

<sup>24</sup> FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*.

## Issue 09-J **Impact of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Primarily Trades**

**Status:** Final consensus.

**Affects:** Entities that issue share-based payment awards with exercise prices in currencies that are different from the entity's functional currency and the payroll currency of the employees.

**Background:** This Issue addresses whether an entity should classify a share-based payment award as equity or a liability if the award's exercise price is denominated in the currency in which the underlying security trades and that currency is different from the (1) entity's functional currency, (2) functional currency of the foreign operation for which the employee provides services, and (3) payroll currency of the employee.

ASC 718-10<sup>25</sup> (formerly Statement 123(R)<sup>26</sup>) requires an entity to classify awards that are indexed to factors other than market, performance, or service conditions as liabilities. Although foreign-currency risk would not be considered a market, performance, or service condition, ASC 718-10-25-4 provides an exception to liability classification if the exercise price of the award is in the currency of the entity's foreign operation or the payroll currency of the employee (provided that the award meets all other equity criteria in ASC 718-10). Some constituents have questioned whether this exception should be extended to awards that are within the scope of this Issue.

**Summary:** After the November 2009 meeting, the Task Force issued an exposure draft that proposed to create an additional exception to liability classification under ASC 718-10. That exception applies to share-based payments with exercise prices denominated in currencies of a market in which "substantial portions" of the entity's equity securities trade. The exposure draft also clarifies that the nature and terms of such awards would need to be disclosed.

At the March 2010 meeting, the Task Force reaffirmed its consensus-for-exposure as a final consensus.

### **Effective Date**

**and Transition:** This Issue will be effective for interim and annual periods beginning on or after December 15, 2010, and will be applied prospectively. Affected entities will be required to record a cumulative catch-up adjustment for all awards outstanding as of the beginning of the annual period in which this Issue is adopted.

**Next Steps:** FASB ratification is expected at the Board's March 31, 2010, meeting.

## **Administrative Matters**

**D-Topic, "Foreign Currency Matters"** — This Topic is in response to inquiries received by the SEC regarding foreign-currency issues related to investments in Venezuela, where there is more than one exchange rate. Specifically, the Topic addresses disclosure requirements related to the remeasurement of foreign-currency-denominated balances in the financial statements of the Venezuelan subsidiary by using an exchange rate that differed from the exchange rate used by the consolidated U.S. parent to translate the financial statements of the Venezuelan subsidiary.

The SEC staff believes that when reported balances differ from the actual U.S.-dollar-denominated balances (if material), an entity should disclose the following in its financial statements: (1) the rates used for remeasurement and translation; (2) a description of why the actual U.S.-dollar-denominated balances differ from the amounts reported for financial reporting purposes, including the reasons for using two different rates for remeasurement and translation; (3) the magnitude of the difference between the amounts reported for financial reporting purposes and the underlying U.S.-dollar-denominated values; and (4) to the extent possible, the amount that will be recognized through the income statement (as well as the impact on the other financial statements) as part of highly inflationary accounting beginning in 2010.

The Topic acknowledges that Venezuela should be considered a highly inflationary economy. In addition, the Topic requires that, in the transition to highly inflationary accounting, any difference between the reported balances and the U.S.-dollar-denominated balances that may have existed before moving to the reporting currency be recognized in the income statement unless the registrant can document that the difference was previously recognized as a cumulative translation adjustment, in which case the difference should be recognized as an adjustment to the cumulative translation adjustment.

<sup>25</sup> FASB Accounting Standards Codification Subtopic 718-10, *Compensation — Stock Compensation: Overall*.

<sup>26</sup> FASB Statement No. 123(R), *Share-Based Payment*.

**Issue 09-D, "Application of the AICPA Audit and Accounting Guide, *Investment Companies*, by Real Estate Investment Companies"** — The discussion of this Issue has been postponed pending the outcome of the FASB's newly added project to its agenda on whether investment properties may be carried at fair value.

**Issue 10-A, "How the Carrying Amount of a Reporting Unit Should Be Determined When Performing Step 1 of the Goodwill Impairment Test"** — The FASB chairman added this Issue to the EITF agenda in February 2010. The Task Force plans to form a working group to provide additional insights and recommendations, and the Task Force will discuss this Issue at a future meeting.

**Issue 10-B, "Accounting for Multiple Foreign Currency Exchange Rates"** — The FASB chairman added this Issue to the EITF agenda in March 2010. The Task Force will discuss this Issue at a future meeting.

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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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