MINUTES

Financial Accounting Standards Board

To:	Board Members		
From:	Lindemuth (x 442)		
Subject:	Minutes of the July 13, 2011 Board Meeting: Ratification of Two EITF Consensuses and One Consensus-for-Exposure	**Date:**	July 20, 2011
cc:	Breen		

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Board ratification of the consensuses reached on EITF Issues No. 09-H and 10-H, and the consensus-for-exposure reached on EITF Issue No. 10-E.

Basis for Discussion: Board Memorandum No. 1 (issued June 30, 2011)

Length of Discussion: 3:30 p.m. to 3:45 p.m.

Attendance:

- Board members present: Buck, Golden, Linsmeier, Schroeder, Seidman, Siegel, and Smith
- Board members absent: None
- Staff in charge of topic: Breen
- Other staff at Board table: Brower, Cosper, Lindemuth
- Outside participants: None

<u>Summary of Decisions Reached</u>:

The Board approved the issuance of two final Accounting Standards Updates to reflect the following consensuses reached at the June 23, 2011 EITF meeting.

1. **Issue No. 09-H, "Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities"**

   The scope of this consensus is limited to health care entities that recognize patient service revenue at the time the services are rendered even though the entity does not assess the patient's ability to pay.

   A health care entity within the scope of this consensus should present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) in the statement of operations and should disclose all of the following:

   A. By major payor sources of revenue:

      i. Its policy for assessing the timing and amount of uncollectible revenue recognized as bad debts

      ii. Its policy for assessing collectability in determining the timing and amount of revenue (net of contractual allowances and discounts) to be recognized

      iii. Its patient service revenue (net of contractual allowances and discounts) before any provision for bad debts.

   B. Quantitative and qualitative information about significant changes in the allowance for doubtful accounts related to patient accounts receivable.

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

   The consensus will be effective for public entities for fiscal years and interim periods within those years beginning after December 15, 2011. The consensus will be effective for nonpublic entities for the first annual period ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted.

   The consensus to present (a) patient service revenue (net of contractual allowances and discounts), (b) the provision for bad debts related to patient service revenue, and (c) the resulting net patient service revenue less the related provision for bad debts as separate line items on the face of the statement of operations should be applied through retrospective application for all periods presented, while the new disclosure requirements should be applied prospectively.

(The Board voted unanimously for the above decision.)

2. **Issue No. 10-H, "Fees Paid to the Federal Government by Health Insurers"**

   A health insurer should present the annual fee to be paid under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act as an operating expense. The fee should be recognized over the calendar year in which it is payable using a straight-line method of allocation unless another method better allocates the annual fee over the calendar year that it is payable.

   The consensus does not require any additional recurring disclosures.

   The consensus will be effective for calendar years beginning after December 31, 2013.

   (The Board voted 6-1 for the above decision.)

   Mr. Schroeder objected to the issuance of the amendments in this Update. Mr. Schroeder agreed with recognition of the liability for the fee, but disagreed with the timing of its recognition and the related deferred cost being amortized over the calendar year the fee is payable. Mr. Schroeder believes that the fee generally meets the essential characteristics of a liability, as outlined in paragraphs 35 through 40 of FASB Concepts Statement No. 6, *Elements of Financial Statements*, in the year used to calculate the fee and should be accrued over the course of that year. That belief is based on the view that an entity subject to the fee incurs a constructive liability throughout the year as related revenues are recognized. Following that view, the constructive liability then becomes a legal liability the first day revenues are recognized in the subsequent year; a relatively inconsequential event for a going concern. Mr. Schroeder believes that absent a decision (before the start of the next calendar year) to cease doing business, an entity should record a liability in the same year related revenues are recognized.

The Board approved the issuance of an Exposure Draft to solicit comments on the following tentative conclusions reached by the EITF at its June 23, 2011 meeting. The comment period for the Exposure Draft is 75 days.

1. **Issue No. 10-E, "Derecognition of in Substance Real Estate"**

   A parent that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default by the subsidiary on its nonrecourse debt would apply the guidance in Subtopic 360-20, Property, Plant, and Equipment—Real Estate Sales, to determine whether to derecognize the real estate and the related debt in the subsidiary.

The consensus-for-exposure does not require any additional recurring disclosures.

The consensus-for-exposure would be applied on a prospective basis to evaluate whether to derecognize real estate owned by an in substance real estate subsidiary. Prior periods would not be adjusted even if the reporting entity has continuing involvement with a previously deconsolidated in substance real estate subsidiary.

(The Board voted unanimously for the above decision.)