**Recent AcSEC Meetings - December 11-12, 2001**

**The St. Anthony Hotel**

**San Antonio, TX**

**AcSEC Meeting Highlights**

All AcSEC members were in attendance both days except for Ben Neuhausen, who attended (by conference phone) on Tuesday, December 11, and Tony Sondhi, who attended on Wednesday, December 12. Other participants in the meeting were:

Deborah Whitmore, Dan Gifford, John Morris-DAC on Internal Replacements   
Marty Baumann (by conference phone), Carol Larson, Dayton Lierley, and David Morris-Allowance for Credit Losses   
Bill Bawden, Michael Schmitz, Patrick Sinks, Charlton Wilder-Mortgage Risk Transfer in Reinsurance Arrangements

**DAC on Internal Replacements**

The task force conducted an educational session for AcSEC to discuss the accounting for deferred acquisition costs when an existing insurance contract is replaced by a new contract between the insurer and a customer. The task force discussed the issues to be addressed by the task force, an overview of current long-duration insurance products, an overview of DAC and the amortization processes, and task force tentative views.

The meeting was educational. No decisions were reached. The task force plans to continue discussing tentative views at the January 2002 AcSEC meeting.

**Risk Transfer in Mortgage Reinsurance Arrangements**

The task force conducted an educational session to discuss the nature of the mortgage insurance industry and the accounting issues involved in captive mortgage reinsurance contracts. This project has been approved by AcSEC's planning subcommittee but is pending FASB clearance. The meeting was educational. No decisions were reached. The task force plans to start discussing tentative views with AcSEC during the first quarter 2002.

**Allowance for Credit Losses**

AcSEC continued its discussions on the allowance for credit losses draft ED SOP. In a revision from its September 2001 meeting, AcSEC decided to restore guidance on the determination (measurement) of the allowance for a pool of loans. AcSEC considered the impairment measurement approach of FASB Statement No. 114 to be appropriate not only for a single impaired loan but also, by analogy, to a pool of loans.   
At its December 11 meeting, AcSEC agreed on the following:

* The SOP will acknowledge that establishing an allowance for credit losses in a subjective process that involves significant judgment.
* FASB Statement No. 114 measurement principles should be applied to the measurement of components of the allowance for credit losses recognized pursuant to FASB Statement No. 5.
* Examples dealing with measurement, the majority of which had been deleted in the November 10, 2001 draft should be included in the SOP after making needed revisions. The examples should illustrate explicitly the accounting model required by the SOP and how the seasoning of loans should be taken into account. Those examples may then be used to illustrate an implicit, or "short-cut," approach to estimating the allowance for credit losses. The SOP should make clear that examples illustrating short-cut calculations of the allowance are intended be illustrative and not prescriptive.
* The guidance in the SOP should be explicitly characterized as an incurred loss model (14 yes, 1 absent).
* The SOP should specify that observable data must reflect events that have already occurred and that observable data may need to be adjusted to take into account environmental changes through the date of the financial statements.
* The SOP should indicate that expected cash flows can be estimated indirectly by estimating cash flows that will not be received.
* The task force should consider further whether the disclosures required by paragraph 28(c) of the November 10, 2001 draft should be made less extensive, whether the focus of the disclosures should be components of the allowance, whether the disclosures can or should be tied to the requirements of SOP 94-6, Disclosure of Certain Significant Risks and Uncertainties, and whether the disclosures should be required or encouraged. The task force will seek input concerning disclosures from the AIMR Financial Accounting Policy Committee.
* The examples should include an explicit disclosure about the use of peer group experience.

AcSEC requested that the task force present a revised draft for AcSEC's consideration at the March 2002 AcSEC meeting.

**Chair's Report**

The Chair reported the following:

* The appointment of Val Bitton as Vice Chair of AcSEC; Mark Bielstein and Tony Sondhi have been added as members of the PSC.

That the PSC:

* Considered a first draft of a prospectus to amend the Broker Dealer Audit and Accounting guide to require larger entities to report trading assets and liabilities at fair value.
* Received an update on the status of the timing and analysis of the 400+ comment letters received on the Exposure Draft SOP Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment.
* Approved TPA Q&As (subject to final PSC review) related to certain provisions of the Audit and Accounting Guide Audits of Investment Companies. The guidance primarily will relate to the method of disclosing financial highlights by nonregistered investment companies. The staff hopes to issue the TPAs in December 2001 or, at the latest, by early January 2002.
* Approved a prospectus (subject to final PSC review) of a project an SOP Accounting For Investors' Interests In Unconsolidated Investments.
* Provided input on a comment letter to the exposure draft of a FASAB Statement Accounting for National Defense PPE and Associated Cleanup Costs.
* Approved a prospectus (subject to AcSEC Chair clearance) of a project to amend the Audit and Accounting Guide Not-for-Profit Organizations as it relates to reporting the costs of soliciting contributed services that do not meet the recognition criteria in paragraph 9 of FASB Statement No. 116, Accounting for Contributions Received and Contributions Made.
* Approved a TPA Q&A (subject to FASB staff consideration) related to the contribution of a hospital by a not-for-profit. The staff hopes to issue the TPA in December 2001.
* Began planning assignments to review conforming changes to Audit and Accounting Guides.
* Gave the FASB staff some informal comments on the FASB's Proposed Statement of Financial Accounting Standards-Rescission of FASB Statements No. 4, 44, and 64 and Technical Corrections.

**Future Meetings of AcSEC**

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| January 29-30, 2002 | New York |
| March 5-6, 2002 | New York |
| April 30-May 1, 2002 | New York |