**The AICPA Boardroom
New York, New York**

**AcSEC Meeting Highlights**

All AcSEC members were in attendance except Paula Panik.

Other participants in the meeting were:
Deborah Whitmore, Dan Gifford, John Morris-DAC on Internal Replacements
Martha Garner- Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations

AICPA staff: Dan Noll, Kim Hekker, Annette Schumacher (via conference call)
FASB Staff: Jules Cassel, Jeff Cropsey, Bob Wilkins

**Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations**

AcSEC discussed a draft of a proposed exposure draft (ED) SOP, the purpose of which is to provide guidance on how not-for-profit health care organizations should report gains or losses on hedging and nonhedging derivative instruments under FASB Statement No. 133, and to clarify certain matters related to the performance indicator (earnings measure) reported by those organizations. Both the project prospectus and the ED are subject to FASB clearance. The following summarizes the discussion:

* AcSEC decided that not-for-profit health care organizations should apply FASB Statement No. 133 similar to how for-profit entities apply that Statement.
* AcSEC discussed the use of performance indicators by other not-for-profit organizations and whether this project should be expanded to all not-for-profits. AcSEC decided that this SOP should focus only on not-for-profit health care organizations.
* AcSEC decided that the SOP should state that the performance indicator of a not-for-profit health care organization is the functional equivalent of "income from continuing operations" of a for-profit entity.
* AcSEC recommended that an illustration be prepared and included in the draft SOP.
* AcSEC considered the transition provisions in the draft SOP and concluded that the SOP should not require reclassification or restatement of prior periods. AcSEC also considered whether reclassification or restatement should be allowed and, if so, whether it should be encouraged. AcSEC also raised the concept of requiring a cumulative effect adjustment. AcSEC did not complete its deliberations and decided to resume discussion at its March meeting.

**DAC on Internal Replacements**

AcSEC heard preliminary task force views on various issues and began discussions related to what will become an ED SOP. Issues include:

* What transactions should be considered internal replacements - the task force proposed that transactions that would be defined as policy enhancements or that were made in accordance with existing contract provisions should not be covered by the project.
* How to determine if an internal replacement is substantially different - the task force proposed that qualitative and quantitative analysis should be considered to determine whether an internal replacement is substantially different from the original contract. The task force is still considering different components of the quantitative computation.
* How to account for internal replacements - the task force proposed that internal replacements that are deemed (a) substantially different should be accounted for as an extinguishment of the original contract and treated as a lapse or surrender and (b) to be not substantially different should be considered a continuation of the original contract (unamortized deferred acquisition costs associated with the original contract should continue to be deferred in connection with the replacement contract). The task force is still considering different approaches for how to account for deferred acquisition costs that continue to be deferred.
* The task force also recommended that the guidance in FASB Statement No. 60 relating to eligibility of costs to be deferred should be applied in determining if any new costs incurred in connection with an internal replacement (that is not substantially different) should be deferred as costs associated with renewals.

AcSEC will continue discussion at its March and/or April meetings.

**Chair's Report**

The Chair reported the following:

* The AICPA staff released TPAs related to (1) private (non-registered) investment companies and (2) Heath Insurance Portability and Accountability Act costs. The TPAs are located at <http://www.aicpa.org/members/div/acctstd/general/othitem.htm>.
* AcSEC will be asked to give its positive clearance of a draft ED SOP on Long Duration Contracts shortly.
* The PSC reviewed proposed TPAs related to insurance separate accounts. AICPA staff will seek SEC staff input on the TPAs. Target release is during the first quarter of 2002.
* The PSC asked the customer acquisition costs task force to split a proposed prospectus into two parts: (1) focus on issues specific to SOP 93-7 on advertising and (2) focus on broader issues related to customer acquisition costs that do not relate to a specific revenue stream.
* The PSC decided that entities subject to the Broker Dealer Guide should continue to follow the guidance in that Guide related to expense reimbursements. A possible issue arose because of a recent EITF announcement titled *Income Statement Characterization of Amounts Billed for "Out-of-Pocket" Expenses Pursuant to a Contractual Right of Reimbursement*. If/when AcSEC undertakes a major revision to the Broker Dealer Guide, AcSEC will consider the guidance in the EITF announcement.
* AcSEC will devote 8 hours at its March 5 meeting to the Allowance for Loan Losses project.
* AcSEC will discuss FASB's revenue recognition prospectus at its March meeting.
* AcSEC issued SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*. In March 2001, the Federal Financial Institution Examination Council (FFIEC) issued guidance on when a charge-off should occur for a loan transferred to held-for-sale status. The PSC decided to add language to the forthcoming Financial Institutions Guide to make clear that SOP 01-6 does not provide guidance on when an entity should record a charge-off, and that entities subject to FFIEC oversight should follow the FFIEC's guidance on when to record a charge-off.

**Liaison with AICPA Technical Issues Committee (TIC)**

AcSEC met with TIC to discuss matters of mutual interest.

**Future Meetings of AcSEC**

* March 5-6, 2002 — New York
* April 30-May 1, 2002 — New York
* June 11-12, 2002 — New York