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AcSEC UPDATE

A publication of the Accounting Standards Executive Committee and the Accounting Standards Team of the AICPA

AICPA

American Institute of Certified Public Accountants

AcSEC ISSUES TWO NEW SOPs

401(h) Features of Defined Benefit Pension Plans. On July 28, 1999, the AICPA issued SOP 99-2, *Accounting For and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans*. The SOP amends chapters 2 and 4 of the AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans*. This SOP specifies the accounting for and disclosure of 401(h) features of defined benefit pension plans, by both defined benefit pension plans and health and welfare benefit plans.

401(h) accounts are a funding mechanism whereby some defined benefit pension plans provide a postretirement medical-benefit component in addition to the normal retirement benefits of the plan, pursuant to Section 401(h) of the Internal Revenue Code. Employers may fund a portion of their postretirement medical-benefit obligations related to their health and welfare benefit plans through a health benefit account (401(h) account) in their defined benefit pension plans, subject to certain restrictions and limitations. 401(h) account assets are used to pay benefits promised by a separate health and welfare benefit plan. Payments for retiree health benefits are made directly from the 401(h) account to the participant or his or her designee or as reimbursements to the sponsoring company. The pension plan basically is a funding vehicle for payment of those benefits.

The SOP requires defined benefit pension plans to record assets held in a 401(h) account related to health and welfare plan obligations for retirees as both assets and liabilities on the face of the statement of net assets available for pension benefits in order to arrive at net assets available for pension benefits. It also requires 401(h) account assets used to fund health and welfare benefits, and the changes in those assets, to be reported in the financial statements of the health and welfare benefit plan. Benefit obligations related to the 401(h) account also are required to be reflected in the health and welfare plan financial statements.

Additional provisions of the SOP include the requirements for defined benefit pension plans to disclose the fact that the 401(h) account assets are available only to pay retirees' health benefits and health and welfare benefit plans to disclose in the notes to the financial statements the fact that retiree health benefits are funded partially through a 401(h) account of the defined benefit pension plan.

SOP 99-2 is effective for financial statements for plan years beginning after December 15, 1998. Earlier application is encouraged. Accounting changes adopted to conform to the provisions of the SOP should be made retroactively by restatement of financial statements for prior periods.

Defined Contribution Plan Investments and Other Disclosure Matters. On September 15, 1999, the AICPA issued SOP 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*. The SOP amends the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans*, SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined Contribution Plans*, and SOP 92-6, *Accounting and Reporting by Health & Welfare Benefit Plans*. The SOP simplifies disclosures for certain investments and would supersede AICPA Practice Bulletin 12, *Reporting Separate Investment Fund Option Information of Defined Contribution Pension Plans*.

The SOP eliminates the previous requirement for a defined contribution plan to present plan investments by general type for participant-directed investments in the statement

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AcSEC Issues Two New SOPs *continued from page 1*

of net assets available for benefits. It also eliminates the requirement for a defined contribution plan to disclose participant-directed investment programs and eliminates the requirement to disclose the total number of units and the net asset value per unit during the period, and at the end of the period, by defined contribution pension plans that assign units to participants.

In addition, SOP 99-3 requires a defined contribution plan to identify nonparticipant-directed investments that represent 5 percent or more of net assets available for benefits and eliminates the requirement for defined contribution plans, including both health and welfare benefit plans and pension plans, to disclose benefit-responsive investment contracts by investment fund option.

SOP 99-3 is effective for financial statements for plan years ending after December 15, 1999. Earlier application is encouraged for fiscal years for which annual financial statements have not been issued. ❖

RECENT AcSEC ACTIVITIES

Life and Health Insurance Entities On September 4, 1998, the AICPA released for public comment a proposed Audit and Accounting Guide *Life and Health Insurance Entities*. The proposed Guide would supersede the AICPA Industry Audit Guide *Audits of Stock Life Insurance Companies*, which was issued in 1972 and updated only for conforming changes. AcSEC discussed the comment letters received on the exposure draft at its March 1999 meeting. AcSEC voted to issue a final Guide to reflect AcSEC's consideration of the comment letters, subject to clearance by the chair of AcSEC, a subcommittee of AcSEC, and the FASB. AcSEC expects to issue the final Guide in the fourth quarter of 1999.

The proposed Guide discusses those aspects of accounting and auditing unique to life and health insurance entities and was developed to assist life and health insurance entities in preparing financial statements in conformity with GAAP and to assist independent auditors in auditing and reporting on those financial statements. In addition, the proposed Guide contains significant discussions of statutory accounting practices (SAP), which comprise laws, regulations, and administrative rulings adopted by various states that govern the operations and reporting requirements

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EFFECTIVE DATES

SOP 97-3, *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*, for fiscal years beginning after December 15, 1998, with earlier adoption encouraged.

SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, for years beginning after December 15, 1998, with earlier application encouraged in fiscal years for which annual financial statements have not been issued.

SOP 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*, for years beginning on or after December 15, 1998, with earlier application encouraged in fiscal years for which financial statements have not been issued.

SOP 98-5, *Reporting on the Costs of Start-Up Activities*, for years beginning after December 15, 1998, with earlier application encouraged in fiscal years for which annual financial statements have not been issued.

SOP 98-7, *Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk*, for fiscal years beginning after June 15, 1999, with earlier adoption encouraged.

SOP 98-9, *Modification of SOP 97-2, "Software Revenue Recognition," With Respect to Certain Transactions*, extends the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4, *Deferral of the Effective Date of a Provision of SOP 97-2, "Software Revenue Recognition,"* effective December 15, 1998 to March 15, 1999; all other provisions are effective for transactions entered into in fiscal years beginning after March 15, 1999. Earlier adoption is permitted as of the beginning of fiscal years or interim periods for which financial statements or information have not been issued.

SOP 99-2, *Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans*, for plan years beginning after December 15, 1998, with earlier application encouraged.

SOP 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*, for plan years ending after December 15, 1999, with earlier application encouraged in fiscal years for which annual financial statements have not been issued.

Editor: **Marc Simon**

Administrative Editor: **Sharon Macey**

AcSEC Update, the newsletter of the AICPA Accounting Standards Executive Committee and the AICPA Accounting Standards Team, is published three to four times a year.

AcSEC AGENDA PROJECTS

As of September 30, 1999	1999 3Q	1999 4Q	2000 1Q	2000 2Q	2000 3Q
Lending Institutions					
Discounts Related to Credit Quality — SOP (page 5)			F		
Banks, Credit Unions, Finance Companies, and Savings Institutions — SOP (page 6)		E			
Allowance for Loan Losses — SOP (page 11)					
Employee Benefit Plans					
Health and Welfare Benefit Plans — SOP (page 6)		E			
401(h) Features — SOP (page 1)	F				
Investments and Other Disclosure Matters — SOP (page 1)	F				
Investment Industry					
Investment Companies — Guide (page 4)			F		
Scope Clarification, Investment Companies Guide — SOP (page 11)				E	
Insurance Industry					
Life and Health Insurance Entities — Guide (page 2)		F			
Nontraditional Contracts — SOP (page 8)				E	
Mutual Company Reorganizations — SOP (page 10)		E			
Motion Picture Industry					
Motion Pictures — SOP (page 7)			F		
Real Estate Industry					
Real Estate Investments — SOP (page 9)			E		
Real Estate Time-Sharing Transactions — SOP (page 9)				E	
Real Estate Cost Capitalization — SOP (page 10)					

Codes: E – Exposure Draft
F – Final Pronouncement

of life insurance entities. The proposed Guide does not reflect SAP under the National Association of Insurance Commissioners codification project.

The proposed Guide also incorporates accounting and financial reporting requirements issued by the FASB and AcSEC since the issuance of the AICPA Industry Audit Guide *Audits of Stock Life Insurance Companies*. Also incorporated in this proposed Guide are new auditing standards issued by the AICPA Auditing Standards Board since the issuance of the pronouncements that the proposed Guide would supersede.

The proposed Guide is not intended to establish any new accounting standards or interpret any existing accounting standards, except for the inclusion of an SEC staff announcement regarding the effects of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, made at the July 12, 1994 EITF meeting, on certain assets and liabilities.

Investment Companies. On September 22, 1998, AcSEC issued an exposure draft of a completely revised Audit and Accounting Guide *Audits of Investment Companies*. This proposed Guide will replace the AICPA Audit and Accounting Guide *Audits of Investment Companies* which was issued in 1987 and updated only for conforming changes. AcSEC discussed the comment letters received on the exposure draft at its April 1999 meeting. At its September 1999 meeting, AcSEC voted to issue a final Guide to reflect AcSEC's consideration of the comment letters, subject to clearance by the chair of AcSEC. AcSEC expects to issue the final Guide in the first quarter of 2000.

The Guide discusses those aspects of accounting and auditing unique to investment companies and was developed to assist investment companies in preparing financial statements in conformity with GAAP and to assist independent auditors in auditing and reporting on those financial statements. The proposed Guide will provide new guidance on accounting for offering costs, amortization of premium or discount on bonds, liabilities for excess expense plans, reporting complex capital structures, payments by affiliates, and financial statement presentation and disclosures for investment companies and nonpublic investment partnerships. The proposed revised Guide will be effective for fiscal years beginning after December 15, 2000.

Discounts Related to Credit Quality. On December 30, 1998, AcSEC issued an exposure draft of a proposed SOP *Accounting for Discounts Related to Credit Quality*. Comments were due by April 29, 1999. AcSEC plans to continue its discussion of major matters raised in the comment letters at its October 1999 meeting. See page 5 for details on the project.

Motion Pictures. In September 1999, AcSEC approved a final SOP, *Accounting by Producers and Distributors of Films*, subject to AcSEC's positive clearance and FASB approval. AcSEC expects to issue the SOP in the first quarter of 2000. See page 7 for details on the project.

Employee Benefit Plans. At its January 1999 meeting, AcSEC cleared for exposure, pending certain revisions, the draft SOP *Accounting and Reporting of Certain Health and Welfare Benefit Plan Transactions*. AcSEC expects to send the revised draft to FASB during the fourth quarter of 1999. See page 6 for details on the project.

AICPA REVAMPS COMMITTEE STRUCTURE

AICPA

The AICPA Board of Directors at its July meeting approved a revamping of the Institute's volunteer committee structure. The new structure is task force driven, but utilizes both the task force and committee formats. As the profession implements the CPA Vision findings, the new structure is geared to readying the profession to address important issues more quickly and effectively. The new structure takes effect at the beginning of the committee year in October 1999.

The aim of the restructuring is to give volunteer efforts the flexibility and nimbleness to keep pace with rapidly changing marketplace issues. It also seeks to involve more members on a wider variety of projects than ever before, tapping the special expertise and interests of individual members from all segments of the profession in a more targeted fashion. In moving to the new model, nearly 50 committees will not continue in their current form.

Implementing the new model will result in streamlining of the overall volunteer structure, and it will be entirely cost-neutral to the Institute while increasing participation. Wherever possible, work will be conducted electronically.

Significantly, the new model does not signal a change in strategic directions or plans, nor a change in the nature of the issues to be addressed. Rather, the restructuring is an attempt to create an environment that approaches marketplace needs and changing business realities with greater speed and focus.

AcSEC

AcSEC will continue in its current form with the same mission and resources. However, 12 industry committees, which have been the source of many AcSEC projects, will be modified. While the affected committees as formal entities are being discontinued, their work and objectives will not be lost. In-progress initiatives are being reviewed, and important projects will continue using a task-force approach. In addition, a working group has been formed to come up with a new structure and process for continuing the many valuable functions that have been fulfilled by the standing industry committees.

AcSEC SHOWS APPRECIATION

Thanks to Outgoing AcSEC Members, Welcome New AcSEC Members

AcSEC wishes to thank the following outgoing members for their dedicated service to the Committee:

Joe Cappalonga — Deloitte & Touche LLP

Lou Matusiak — Olive LLP

Mary Stone — University of Alabama

The following are the new AcSEC members as of October 1, 1999:

Mary Barth — Stanford University

Val Bitton — Deloitte & Touche LLP

Dave Hinshaw — Cherry, Bekaert & Holland

AcSEC MEMBER ACTIVITIES

Speeches and Panel Participation by AcSEC Members

David Kaplan — "Financial Reporting in the 1990s," Texas Society of CPAs — Houston Chapter, Houston, TX, May 1999;

Panelist, SEC and Financial Reporting Institute Conference, USC Leventhal School of Accounting, Los Angeles, CA, May 1999;

"Current Developments in Financial Reporting," Midwest Financial Executive Symposium, Illinois CPA Foundation, September 1999.

Louis Matusiak, Jr. — "SOP 98-2 Presentation," The American Group, Orlando, FL, May 1999;

"SOP 98-2 Presentation," NPO Conference, Texas Society of CPAs, Dallas, TX, May 1999;

"AcSEC Update," AICPA Practitioners Symposium, Phoenix, AZ, May 1999;

"Motion Pictures SOP ED Presentation," Entertainment Symposium, California Society of CPAs, Los Angeles, CA, June 1999;

"AcSEC Update," AICPA National Accounting and Auditing Advanced Technical Symposium, Las Vegas, NV, July 1999.

David Morris — "Application of SFAS 133 to Complex Hedging Strategies," Understanding and Implementing SFAS 133 Conference, AICPA and Bank Administration Institute, Washington, DC, April 1999;

"Accounting Update," ISDA Annual Members Update Conference, International Swaps and Derivatives Association, New York, NY, September 1999.

Mark Sever — "Standard Setting Update," SEC Institute Insurance Conference, Bermuda, July 1999;

"Standard Setting Update," SEC Institute II GAAP Update, Chicago, IL, San Antonio, TX, July 1999.

Articles by AcSEC Members

David Morris — "Derivative Instruments and Hedge Accounting: A Comparison of the U.S. and International Standards," *Echanges*, April 1999.

Benjamin Neuhausen — "The FASB's New Stock Compensation Project," *Journal of Corporate Accounting and Finance*, Winter 1999.

AcSEC's CURRENT SOP PROJECTS

Accounting for Discounts Related to Credit Quality

Description and background. FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, requires that discounts be recognized as an adjustment of yield over an instrument's life. Practice Bulletin (PB) 6, *Amortization of Discounts on Certain Acquired Loans*, further addresses accretion of discounts on certain acquired loans, which involves intertwining issues of accretion of discount, measurement of credit losses, and recognition of interest income. This project considers whether PB 6's objectives and guidance continue to be relevant given a number of FASB pronouncements issued subsequent to PB 6 to address various related issues.

Tentative conclusions. AcSEC has reached the following tentative conclusions for loans and debt securities purchased at a discount related to credit quality:

- Investors should display purchased loans at the initial investment amount on the balance sheet. Investors should not display discounts on purchased loans in the balance sheet and should not carry over the allowance for loan losses established by the seller.
- Investors should estimate expected cash flows on the loan at inception and periodically over the life of the loan. The excess of expected cash flows over the initial investment (purchase price) should be recognized as the loan's yield. The excess of contractual cash flows over expected cash flows should not be recognized as yield. Subsequent decreases in expected cash flows result in recognition of an impairment. Subsequent increases in expected cash flows should be recognized prospectively.
- Loans purchased at a discount related to credit quality should not be considered impaired at acquisition for either measurement or disclosure purposes. However, the proposed SOP requires new disclosures for purchased loans within its scope, in addition to those already required by other accounting literature, including FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, and FASB Statement No. 118, *Accounting by Creditors*

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for Impairment of a Loan — Income Recognition and Disclosures. Such disclosures apply whether or not loans are considered impaired.

- The SOP explicitly excludes originated loans from its scope. FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, provides criteria for distinguishing between purchased and originated loans. The SOP also excludes transactions in which the investor acquires loans from the transferor through an agency relationship, for example, when the transferor bears no risk of loss in making and selling the loans.
- The SOP will not apply to revolving credit accounts where the customer has revolving privileges at the purchase date (but will apply to accounts where the customer has lost revolving privileges).
- Retained interests will be excluded from the scope of the SOP.
- The scope will include loans acquired in purchase business combinations. AcSEC found no reason to exclude such loans while at the same time including individual or "bulk" loan purchases.
- Only those mortgage loans that are held for sale (which are covered under FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*) will be excluded from the scope of the SOP.

Current developments and plans. The exposure draft was issued December 30, 1998 and comments were due by April 29, 1999. AcSEC discussed major matters raised in the comment letters at its July 1999 meeting, and will continue its discussion at the October 1999 meeting. AcSEC expects to issue a final SOP with the title "Accounting for Certain Purchased Loans" in the first quarter of 2000.

Staff: Sydney Garmong

Managed Care Arrangements

AcSEC's Planning Subcommittee (PSC) revisited the status of the project with representatives of the Task Force in September. The PSC considered the progress to date and the general approach and concluded that the project would not be successfully completed with the current approach. Also, the PSC concluded that it was unlikely that an alternative approach would be identified that would result in the project's successful completion. Accordingly, the PSC decided to terminate the project.

Staff: Joel Tanenbaum

Accounting and Reporting For Certain Health and Welfare Benefit Plan Transactions

Description and background. This proposed SOP would amend chapter 4 of the AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans* and SOP 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*. This project was undertaken because in recent years, many employers have amended their plans to reduce benefits provided, to introduce cost-sharing arrangements, or both. To the extent that cost sharing has been introduced or increased, the total cost of the benefits has remained essentially the same, while the portion of the total cost paid by the plan sponsor has decreased. Such benefit reductions and cost-sharing arrangements were not prevalent when SOP 92-6 was issued, and thus they were not addressed in SOP 92-6. In addition, since SOP 92-6 was issued, there has been confusion among preparers and auditors in understanding and implementing some of its requirements.

Tentative conclusions.

This proposed SOP:

- Revises the standards for measuring, reporting and disclosing estimated future postretirement benefit payments that are to be funded partially or entirely by plan participants
- Specifies the presentation requirements for benefit obligation information
- Establishes standards of financial accounting and reporting for certain postemployment benefits provided by health and welfare benefit plans
- Clarifies the measurement date for benefit obligations
- Requires the identification of investments that are 5 percent of the net assets available for benefits.

Current developments and plans. At its January 1999 meeting, AcSEC cleared the draft SOP for exposure pending certain revisions that are subject to clearance by the AcSEC Chair. A discussion with the FASB for purposes of clearance for exposure is expected during the fourth quarter of 1999.

Staff: Wendy Frederick

Financial Institutions: Banks, Credit Unions, Finance Companies, and Savings Institutions

Description and background. This SOP project is to reconcile the specialized accounting and financial reporting guidance established in the existing Guides *Banks and Savings Institutions*, *Audits of Credit Unions*, and *Audits of Finance Companies*. The final provisions

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Facts About AcSEC

AICPA

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Purpose of AcSEC

The Accounting Standards Executive Committee (AcSEC) is the senior technical committee at the AICPA authorized to set accounting standards and to speak for the Institute on accounting matters. In carrying out its standards-setting and communications activities, AcSEC maintains liaison with the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), the Securities and Exchange Commission (SEC), and the International Accounting Standards Committee (IASC). The accounting standards that AcSEC issues are prepared largely through the work of task forces, each having an AICPA staff member as liaison.

The SEC, established in 1934, has statutory authority to set accounting standards, but has looked to the accounting profession to establish generally accepted accounting principles (GAAP) in the United States. FASB, an independent not-for-profit organization established in 1973, is the primary private-sector standards setter. As such, it establishes the highest level of accounting principles, Level A GAAP. The AICPA's AcSEC works closely with the FASB to establish consistent accounting standards in the United States. AcSEC Statements of Position (SOPs) are established as the next highest level of accounting principles, Level B GAAP. AcSEC also issues industry audit and accounting guides, practice bulletins, issues papers, and comment letters on other standards setters' proposed guidance. AcSEC's standards-setting activities are often industry-specific or narrow in their scope, unlike the majority of FASB's projects, which are broader in scope.

Meetings

AcSEC generally meets eight times a year. Meetings are open to the public. Immediately preceding each meeting is a nonpublic meeting of AcSEC's Planning Subcommittee (PSC). The PSC determines AcSEC's agenda, sets priorities for AcSEC projects, and monitors the progress of the projects. The PSC also assists the Chair of AcSEC with certain administrative and technical responsibilities.

The Standards Setting Process for AcSEC Statements of Position

AcSEC's standards setting process for its SOPs is outlined below:

- An accounting or reporting issue requiring guidance, typically due to an emerging problem or diversity in practice, is either identified by AcSEC or brought to AcSEC's attention. An appropriate AcSEC task force drafts a prospectus for a project to address the practice problem and presents it to the PSC for approval to undertake the project. The prospectus addresses the nature and pervasiveness of the problem, the technical feasibility of developing an operational solution, alternative solutions, and practical consequences that may result from those solutions. In preparing the prospectus the task force looks to address and meet certain clearance criteria used by the FASB, namely, that the project does not amend or conflict with existing GAAP, that it should result in an improvement in practice, that there is a definite need for the project, and that the benefits of the project are expected to exceed its costs. If the project is approved by the PSC, the prospectus is discussed in a public meeting with the FASB. FASB requires that 5 of FASB's 7 members not object to the project as presented in the prospectus before it is added to AcSEC's agenda.

- The task force develops a proposed Statement of Position and brings it to AcSEC for approval to expose the proposed SOP to the public for comment. AcSEC may discuss the project over the course of several meetings, may hold informational or educational sessions for its members, and may request that the task force make substantial revisions to the draft. Approval of the proposed SOP for exposure requires at least a two-thirds vote of AcSEC members.
- At a public FASB meeting, representatives of AcSEC and the task force then discuss the proposed SOP with the FASB. FASB's clearance criteria and voting process for exposure of the proposed SOP are similar to those for the prospectus. FASB may also suggest changes. Once FASB clearance is obtained, an exposure draft is issued by the AICPA.
- AcSEC and the task force review all comment letters received. The task force may recommend changes in the document based on the comments received, and AcSEC decides which of those changes should be made to the proposed SOP. FASB also reviews the comment letters.
- AcSEC, which may discuss the proposed revisions over the course of several meetings, indicates revisions required before approving the document for final issuance. Approval of an SOP requires at least a two-thirds vote of AcSEC members.
- FASB discusses the revised SOP with the AcSEC and task force chairs in a public FASB meeting. FASB's clearance criteria and voting process for issuance are similar to those for the prospectus and exposure draft. The FASB may request or require that certain revisions be made in deciding whether to clear the document for issuance.
- A similar process exists when AcSEC clears documents through the GASB. A similar but somewhat less extensive process is used for issuing practice bulletins, as practice bulletins do not require public exposure.

Sometimes the nature of an accounting or reporting issue is such that AcSEC considers it more appropriate that it be considered by the FASB or FASB's Emerging Issues Task Force (EITF). In such cases, AcSEC will refer the issue to FASB or EITF. The AcSEC chair is a member of the EITF's agenda committee and is a non-voting observer at EITF meetings.

Members of AcSEC

AcSEC is composed of 15 volunteer members, representative of industry, academia, analysts, and both national and regional public accounting firms. All AcSEC members are CPAs and members of the AICPA. As of October 1, 1999, the members are:

Dave Kaplan, *Chair*	(PricewaterhouseCoopers LLP; Florham Park, NJ)
Al Adkins	(USX Corporation; Pittsburgh, PA)
Mary Barth	(Stanford University; Stanford, CA)
Mark Bielstein	(KPMG Peat Marwick LLP; New York, NY)
Val Bitton	(Deloitte & Touche LLP; Wilton, CT)
Cassandra Camp	(Carlin, Charron & Rosen LLP; Worcester, MA)
Jack Ciesielski	(R.G. Associates; Baltimore, MD)
Bob Dale	(Purvis, Gray and Company; Gainesville, FL)
Joe Graziano	(Grant Thornton LLP, New York, NY)
Dave Hinshaw	(Cherry, Bekaert & Holland LLP; Charlotte, NC)
Ray Krause	(McGladrey & Pullen, LLP; Bloomington, MN)
David Morris	(The Chase Manhattan Bank; New York, NY)
Ben Neuhausen	(Arthur Andersen LLP; Chicago, IL)
Paula Panik	(The Travelers Insurance Companies; Hartford, CT)
Mark Sever	(Ernst & Young LLP; Chicago, IL)

Each member is appointed for one year with three years being the maximum term; however, on occasion, members have been on AcSEC for longer periods.

Additional Information

AcSEC Update: *AcSEC Update* is the newsletter of AcSEC and is published three to four times a year. It provides information about recently issued AcSEC pronouncements and current AcSEC projects. For further information, contact Marc Simon by e-mail at *msimon@aicpa.org.*

AICPA Web Site: Information about AcSEC activities, including exposure drafts, appears on the AICPA Web Site, "AICPA Online." The AICPA Web Site address is *http://www.aicpa.org*, and the area containing information pertaining to AcSEC activities is entitled "Accounting Standards Team." This area can be accessed by clicking in the "choose a topic" section underneath "Information Solutions" and selecting "Accounting/Financial Reporting."

AcSEC Pronouncements: To order copies of AcSEC pronouncements — write to AICPA Order Department, NQ, P.O. Box 2209, Jersey City, NJ 07303-2209; order via fax, 800–362–5066; or call 888–777–7077 (option #1) and ask for Operator NQ. Orders for exposure drafts (one copy is free) must be written or faxed if not obtained from the web site.

Members of AcSEC — Biographical Information

Dave Kaplan (AcSEC Chair) is a partner in PricewaterhouseCoopers LLP and co-director of the firm's National Accounting Consulting Services Group. He is the AcSEC observer to the FASB's Emerging Issues Task Force and a member of the Steering Committee of the FASB's Business Reporting Research Project. Mr. Kaplan has been the chair of AcSEC since 1997 and a member of AcSEC since 1995. Prior to joining the National Office of PricewaterhouseCoopers in 1995, he was a client service partner and the firm's Northeast region risk management partner. Mr. Kaplan joined the firm in 1976 and was admitted to the partnership in 1987. He holds BS and MSBA degrees in Accounting from the University of Massachusetts.

Al Adkins is Assistant Comptroller for USX Corporation in Pittsburgh, PA. In over twenty years with USX, Mr. Adkins has held accounting, purchasing, finance, and tax positions within other areas of USX. In late 1997, Mr. Adkins assumed his current position with USX and relocated to Pittsburgh, PA. He holds a BS degree in Accounting from Marshall University in Huntington, WV.

Mary Barth is an Associate Professor of Accounting at the Graduate School of Business at Stanford University. Prior to joining the Stanford faculty, Dr. Barth was a member of the accounting faculty at the Harvard Business School. Dr. Barth teaches financial reporting courses at the graduate level. Her research focuses on financial reporting topics and is published in academic and professional journals. Dr. Barth serves on the Financial Accounting Standards Advisory Council and the Financial Instruments Task Force of the FASB and has served as a member of AICPA Council. Dr. Barth received her bachelors degree from Cornell University, her MBA from Boston University, and her Ph.D. from Stanford University. Prior to entering academia, she was an audit partner with Arthur Andersen & Co.

Mark Bielstein is a partner with KPMG Peat Marwick LLP in the firm's Department of Professional Practice — Assurance & Advisory Services in New York. He has been with KPMG for 21 years. Prior to joining the firm's National Office, Mark was an assurance partner in the San Antonio office where he served clients in a variety of industries. Mark holds a BBA from Baylor University.

Val Bitton is the National Director of Accounting Services of Deloitte & Touche LLP. Mr. Bitton served as the Chairman of the AICPA International Strategy Committee from 1998 to 1999. He also has served on the AICPA SEC Regulations Committee, the AICPA Special Committee on International Strategy, and as a staff member of the AICPA Special Committee on Financial Reporting (the "Jenkins Committee"). Prior to joining the National Office in 1990, Mr. Bitton served clients in a variety of industries in the Salt Lake City practice area. He holds a BA from Weber State University and a Masters of Professional Accountancy from the University of Utah.

Cassandra Camp is a partner at Carlin, Charron & Rosen LLP, headquartered in Worcester, Massachusetts. The firm is the second largest non-national firm in Massachusetts, with 5 offices and approximately 145 employees. Ms. Camp chairs the firm's audit and accounting committee, with responsibility for setting firm policy regarding audit procedures and implementation of new auditing and accounting standards. Previously, Ms. Camp was an audit manager at Coopers & Lybrand and the director of cost accounting for Teradyne, both in Boston. She holds both undergraduate and graduate degrees in Accounting from the University of Texas. She has served on the AICPA Accounting and Review Services Committee and the PCPS Technical Issues Committee.

Jack Ciesielski is the owner of R.G. Associates, Inc., an investment research and management firm which publishes *The Analyst's Accounting Observer,* an accounting advisory service for security analysts. Before founding R.G. Associates in 1992, he spent nearly seven years as a security analyst with the Legg Mason Value Trust. He has performed various stints in the accounting profession as an auditor with Coopers & Lybrand, an internal auditor with Black & Decker, and an educator at the University of Maryland. He holds BA and MSF degrees from Loyola College in Baltimore.

Bob Dale is an audit partner in the Gainesville, Florida office of Purvis, Gray and Company. He joined the firm in 1972 and was appointed Partner-in-Charge of the firm's audit department in 1989. He is a graduate of the University of Florida with a degree in Accounting. From 1990 to 1996 Mr. Dale served on the AICPA's Technical Issues Committee, serving as committee chair from 1993 to 1996.

Joe Graziano is the national director of SEC and financial reporting for Grant Thornton LLP. Prior to transferring to the National Office, Mr. Graziano was an assurance partner in its New York office. He holds a BBA from Bernard M. Baruch College and an MBA from St. John's University.

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Ben Neuhausen is a partner with the Professional Standards Group of Arthur Andersen LLP. His principal areas of specialization include compensation and employee benefits, financial instruments, insurance and leasing. Before joining the Professional Standards Group, Mr. Neuhausen worked in the audit practice of Arthur Andersen in New York with clients in a variety of industries. From 1979 to 1981, Mr. Neuhausen was a Practice Fellow at the FASB. He holds a BA in Economics from Michigan State University and an MBA in Accounting from New York University.

Paula Panik is vice president, accounting policy and finance at Travelers Property Casualty Corp. and Travelers Life and Annuity, members of Citigroup. Prior to joining Travelers, Ms. Panik was an audit manager at Price Waterhouse. Before joining Price Waterhouse, she was chairman of the Department of Economics and Business and of the Division of Social Sciences at St. Joseph College, West Hartford, Connecticut. Ms. Panik holds a BS from St. Bonaventure University, and MS degrees from Boston College and the University of Hartford.

Mark Sever is a partner in Ernst & Young's National Office where he serves as a Professional Practice Director for the Lake Michigan Area office. In his career at E & Y, Mark has served a variety of clients in the financial services, insurance and manufacturing industries. Mark was a Practice Fellow with the FASB and has served on the AICPA's Information Retrieval Task Force and the Financial Instruments Task Force. Mark is a graduate of the University of Notre Dame.

would be incorporated in a final combined Guide, *Financial Institutions: Banks, Credit Unions, Finance Companies, and Savings Institutions*.

The proposed SOP eliminates differences in accounting and disclosure established by the respective Guides, and carries forward accounting guidance for transactions determined to be unique to certain financial institutions.

Tentative conclusions.

Some of the more important tentative conclusions reached by AcSEC are as follows:

- Mortgage companies and corporate credit unions will be explicitly included in the scope of the combined Guide.
- Regulatory capital disclosures will be required for mortgage companies, credit unions, banks, and thrifts.
- Credit unions report amounts placed in their deposit insurance fund as an asset if such amounts are fully refundable, due to unique legal and operational aspects of the credit union share insurance fund. Banks and thrifts expense payments to their deposit insurance fund as incurred. Under the SOP, both practices are expected to be preserved because of differences in how the funds operate.
- Finance companies record purchases and sales of securities on the settlement date, whereas banks, thrifts, and credit unions follow trade date accounting. Under the SOP, finance companies will follow trade date accounting.
- FASB Statement Nos. 114, *Accounting for Contingencies and Accounting by Creditors for Impairment of a Loan*, and 118, *Accounting by Creditors for Impairment of a Loan — Income Recognition and Disclosures*, address loan impairment measurement and disclosure requirements, but do not specify how to recognize income on impaired loans. The Guide for finance companies gives specific guidance on the recognition of interest income on impaired loans. Under the SOP, such guidance for finance companies will be eliminated.
- Under the SOP, certain disclosures for credit unions will be eliminated. These disclosures include, for example, additional information about repurchase agreements, servicing assets, and deposit liabilities.

Current developments and plans. AcSEC cleared the exposure draft of the proposed SOP at its December 1998 meeting. In July 1999, the FASB did not object to AcSEC issuing the proposed SOP for exposure, subject to certain revisions. AcSEC expects to issue the exposure draft in the fourth quarter of 1999.

Staff: Sydney Garmong

Mass Tort Exposures of Insurance Enterprises

Description and background. This project was undertaken to address diversity in practice in the recognition and measurement of liabilities for mass tort exposures of insurance enterprises within the context of existing authoritative literature, principally FASB Statement No. 5, *Accounting for Contingencies*, and No. 60, *Accounting and Reporting by Insurance Enterprises*.

Current developments and plans. Factors such as differences in the way in which mass torts may evolve and in the information that is available to preparers of financial statements at any given point have limited the development of further guidance that could be applied uniformly to different mass tort exposures and by different enterprises. Based on AcSEC's discussions of the project to date and on input received from the AICPA Insurance Companies Committee and Health Care Committee, the PSC concluded in September that further work on this project was unlikely to produce sufficient new accounting guidance to warrant an authoritative pronouncement and therefore decided to terminate the project.

Staff: Fred Gill

Motion Pictures

Description and background. This project was undertaken by AcSEC at the request of the FASB, and the resulting SOP will replace FASB Statement No. 53, *Financial Reporting by Producers and Distributors of Motion Picture Films*.

Tentative conclusions. Major changes to the October 16, 1998 exposure draft SOP include:

Changes to the film required of the producer after delivery — Significant changes to a film would be defined as those changes that are additive, which involves creation by entities of new or additional content after delivery. Changes such as dubbing and adding subtitles would therefore not be considered significant changes that preclude revenue recognition.

Participations and residuals — Participations and residuals would be accounted for under current practice, that is, costs should be accrued as revenue is earned, similar to accounting for royalties.

Exploitation costs — All exploitation costs would be accounted for under SOP 93-7, *Reporting on Advertising Costs*.

Impairment assessments — At each balance sheet date, films should be assessed for their net realizable value.

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Statement of cash flows — Cash outflows for film costs, participation costs, exploitation costs, and manufacturing costs should be reported as operating activities in the statement of cash flows.

Revenue recognition — The requirement that licensees transfer substantially all risks and rewards of ownership (capital lease analogy, paragraph 7) in order for film entities to initially recognize revenue would be deleted.

Fee allocations (multiple films) — Flat fee allocations to individual films should be based on the fair value of the films; AcSEC deleted the "entity-specific" and "product-specific" requirements discussed in the exposure draft.

Minimum guarantees — Nonrefundable minimum guarantees in variable fee arrangements on multiple films should be recognized as revenue similar to how an entity accounts for flat fees. However, when the films are cross-collateralized, the guarantee fee should be recognized as revenue similar to how an entity accounts for variable fees, with any excess guarantee fee over variable fee being recognized as revenue at the end of the license period.

Net realizable value — NRV assessments will consider estimates of future costs of exploitation.

Transition — The effective date will be extended for one year, making the SOP effective for fiscal years beginning after December 15, 2000.

Current developments and plans. AcSEC approved the final SOP at its September 1999 meeting subject to AcSEC's positive clearance and FASB approval. AcSEC expects to issue the final SOP in the first quarter of 2000.

Staff: Dan Noll

Nontraditional Long-Duration Contracts

Description and background. In February 1998, the FASB cleared a prospectus for the development of an SOP on accounting by insurance companies for certain nontraditional long-duration contracts and for separate accounts. The SOP will address the classification and valuation of liabilities as well as disclosures for nontraditional annuity and life insurance contracts issued by insurance enterprises. The AICPA Insurance Companies Committee identified this project because of the growing trend in insurers offering such contracts.

Tentative conclusions. At its April 1999 meeting, AcSEC expressed the following:

Sales inducements — AcSEC discussed whether sales inducements should be expensed as incurred or whether they should be accrued over the contract period. AcSEC concluded that there may be some basis for capitalizing and amortizing certain sales inducements if additional interest is paid up front to entice the buyer into a contract. Other "bonus" inducements paid at the end of contracts should be accrued during the contract period. The task force will consider developing criteria for determining if certain sales inducements should be capitalized and amortized, and for what period, because of the variation in how sales inducements including bonus interest provisions are offered.

Definition of a separate account — AcSEC discussed whether a separate account is similar to a mutual fund or a bank trust account and therefore should not be presented in the financial statements of the insurance enterprise. Three differences between separate accounts and mutual funds or trust accounts were identified:

- Separate account assets are legally owned by the insurance enterprise, whereas a bank does not own trust assets.
- Contracts offered through separate accounts have insurance features.
- State statutes provide that, during bankruptcy or liquidation, the liabilities of a separate account will be satisfied by the separate account assets first—general account policyholders do not have a right to the separate account assets (referred to as the "bankruptcy remote feature"). However, any excess of separate account assets over separate account liabilities reverts to the insurance enterprise.

AcSEC concluded that separate accounts should be included in the financial statements of the insurance enterprise.

Presentation of separate account assets and liabilities — AcSEC discussed three models for display of separate accounts in the financial statements of insurance enterprises.

- Allow separate accounts that meet certain criteria to be presented as a single line item on the balance sheet. A single-line presentation on the respective sides of the balance sheet would be for pure pass-through separate accounts, and an additional single-line presentation on the respective sides of the balance sheet would be for certain separate accounts with some investment guarantee. (Option 1)
- Allow only separate accounts without any kind of guarantee to be presented as a single line item on the balance sheet of an insurance enterprise. Additionally, separate accounts with any form of investment guarantee would be consolidated. (Option 2)
- Amend paragraphs 53 and 54 of FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, to eliminate the single presentation for all assets and liabilities related to contracts offered through separate accounts. (Option 3)

AcSEC concluded that Option 3 should be eliminated. AcSEC discussed the criteria proposed by the task force for determining

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whether the assets and liabilities of separate accounts should be reported as a single line item under Option 1. AcSEC favored Option 2 unless the criteria in Option 1 can be made more operational.

Current developments and plans. AcSEC will continue the discussion at its December 1999 meeting.

Staff: Elaine Lehnert

Real Estate Time-Sharing Transactions

Description and background. AcSEC added this project to its agenda at the request of the Real Estate Committee because of diversity in practice caused by a lack of guidance specific to real estate time-sharing transactions. The SOP would attempt to reduce the diversity in practice.

Issues to be addressed in this proposed SOP include:

- Which profit recognition method should be used?
- How should allowances for uncollectible receivables be determined?
- What kinds of selling costs may be deferred?

Tentative conclusions. At its April 1999 meeting, AcSEC concluded the following:

- The SOP will provide accounting guidance only for *sellers* of time-sharing arrangements.
- The underlying structural basis for the time-sharing accounting model would be the retail land sales (RLS) model of FASB Statement No. 66, *Accounting for Sales of Real Estate*, with inclusion of certain of the fundamental principles of the other-than-retail-land-sales (OTRLS) model of Statement 66.
- A cumulative 10% down payment (on principal) test to conclude the buyer is committed, similar to that in the RLS model, would need to be passed in order for a time-share seller to be able to record a sale under an accounting method other than the deposit method.
- A receivable collectibility test such as the "90% / 20%" test in the RLS model (paragraph 45c of Statement 66) would need to be passed in order for a seller to be able to record a sale under an accounting method other than the installment method.
- A test of the seller's ability to estimate future defaults would also have to be passed in order for a seller to be able to record a sale under an accounting method other than the installment method. This test is analogous to the ability to estimate future returns discussed in FASB Statement No. 48, *Revenue Recognition When Right of Return Exists*.

Current developments and plans. AcSEC will continue to discuss key issues at its December 1999 meeting, and plans to issue an exposure draft in the second quarter of 2000.

Staff: Marc Simon

Interests in Unconsolidated Real Estate Investments

Description and background. This proposed SOP would supersede portions of SOP 78-9, *Accounting for Investments in Real Estate Ventures*. AcSEC added this project to its agenda in 1991 in response to inconsistent practice, especially in the area of loss recognition, and a lack of guidance on reporting on unincorporated entities.

Tentative conclusions. AcSEC decided in December 1998 that the SOP would benefit from a "fresh-start" rewrite to make it more concise and clear, but that the key conclusions of the most recent draft of the SOP would be retained. A rewritten draft SOP was discussed at the July 1999 AcSEC meeting. The principal conclusions of the draft SOP include the following:

- The equity method of accounting should be used by all investors in an unconsolidated real estate investee when that investee is organized in a structure such that each investor has a specific ownership account in the investee to which the investor's share of profits and losses, contributions, and distributions accrues directly. Such structures would include general and limited partnerships, limited liability companies (LLCs), and limited liability partnerships (LLPs). When an unconsolidated real estate investee is organized in the form of a C corporation, S corporation, or real estate investment trust (REIT), APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, should be followed in determining whether the investor should account for its investment under the equity method.
- The hypothetical liquidation at book value method (HLBV) should be followed when implementing the equity method. HLBV is a balance sheet-oriented approach to equity method accounting. Under HLBV, an investor determines its "share" of the earnings or losses of an investee by determining the difference between its "claim on the investee's book value" at the end and beginning of the period. This claim is calculated as the amount that the investor would receive (or be obligated to pay) if the investee were to liquidate all of its assets at recorded amounts determined in accordance in GAAP and distribute the resulting cash to creditors and investors in accordance with their respective priorities.
- HLBV should be applied to all forms of financial interest that an investor has with respect to an investee, including common

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stock, preferred stock, debt securities, receivables, loans, and advances.

- In applying HLBV, an investor should report a negative investment (liability) only to the extent it has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee. When the amount an investor would receive or pay upon the hypothetical liquidation of an investee at book value depends on the ability of another investor to fund its negative investment, an investor's claim on the book value of an investee should include only those amounts for which it is probable that the other investor will be able to fund.

Current development and plans. AcSEC will continue its discussion of the draft SOP at its October 1999 meeting, with the intention of voting on exposure. AcSEC plans to issue the exposure draft in the first quarter of 2000.

Staff: Marc Simon

Real Estate Cost Capitalization

Background and description. Diversity in practice concerning the recording of costs for improvements, replacements, betterments, additions (and terms synonymous with these such as redevelopments, refurbishments, renovations, and rehabilitations), and repairs and maintenance is one of the most prevalent problems in the real estate industry at this time. The AcSEC task force is working on an SOP to address accounting and disclosure issues related to determining which costs related to real estate assets should be capitalized as improvements and which should be expensed as repairs and maintenance. The SOP will also address capitalization of indirect and overhead costs and componentization of real estate assets.

Current developments and plans. In January 1999, the FASB did not object to AcSEC proceeding with the project. AcSEC formed a task force and an initial discussion of key issues is planned for AcSEC's January 2000 meeting.

Staff: Marc Simon

Mutual Company Reorganizations

Description and background. In February 1999, the FASB cleared a prospectus for the development of an SOP on accounting by insurance enterprises for demutualizations and formations of mutual insurance holding companies (MIHCs). The AICPA Insurance Companies Committee identified this project because of the growing trend for mutual insurers to form mutual holding companies or to demutualize.

Tentative conclusions.

Accounting for expenses related to a demutualization and the formation of an MIHC — AcSEC discussed whether the classification of expenses related to a demutualization and the formation of an MIHC should be considered a normal expense, an extraordinary expense, or as part of the reorganization (reduction of retained earnings). AcSEC was split on this conclusion, with a plurality in favor of treating demutualization and MIHC formation expenses as ordinary and a minority of the members in favor of treating the expenses as extraordinary.

Presentation of the closed block — AcSEC concluded that closed block assets and liabilities from the closed block should be included with the corresponding financial statement items of the insurance enterprise.

Accounting for pre-demutualization participating contracts after the demutualization date or formation of an MIHC — SOP 95-1, *Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises*, established accounting principles to be applied by a mutual life insurance company to certain participating policies. FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, provides only limited guidance on the accounting to be applied to stock life insurance company participating policies. Accounting guidance on whether a mutual life insurance company that converts to a stock company should continue to apply the provisions of SOP 95-1 or could apply the provisions of FASB Statement No. 60 to its participating policies would need to be determined. AcSEC concluded that SOP 95-1 should continue to be applied. However, provisions of paragraph 42 of FASB Statement No. 60 relating to dividends to participating contracts should apply to such contracts sold before the date of demutualization or date of formation of the MIHC.

Deferral of excess earnings — AcSEC discussed that the maximum future contribution of the closed block to the earnings of the company is typically the excess of the GAAP liabilities over the GAAP assets at the date of demutualization. FASB Statement No. 120, *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*, and SOP 95-1, paragraphs 14 and 42, indicate that a dividend liability should not be established based upon the concepts under which the principles for accounting for mutual life insurance company participating policies were developed. Under FASB Statement No. 60, paragraph 42, a dividend liability should be established for current earnings that will be paid to policyholders through future benefits. From a shareholder perspective, excess earnings of the closed block that will never inure to the shareholders should be set up as a liability. AcSEC decided upon establishment of a dividend liability for excess earnings due to policyholders that cannot inure to shareholders.

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AcSEC's CURRENT SOP PROJECTS *continued from page 10*

Accounting for retained earnings — At the date of formation of an MIHC or demutualization, shares of capital stock will be issued. AcSEC concluded that for a distribution form demutualization, an insurance enterprise should reclassify all of its retained earnings as of the date of demutualization to capital stock and paid-in capital accounts (the capital accounts). AcSEC concluded that a subscription form demutualization does not in and of itself result in reclassification of retained earnings. AcSEC concluded that the equity accounts of the MIHC at the date of formation should be determined using the principles for transactions of companies under common control with the amount of retained earnings of the demutualized insurance enterprise, before reclassification to the capital accounts, being reported as retained earnings of the MIHC.

Current developments and plans. AcSEC will continue its discussion of this project at its October 1999 meeting, with the intention of voting on exposure. AcSEC plans to issue an exposure draft in the fourth quarter of 1999.

Staff: Elaine Lehnert

Clarification of the Scope of the Investment Companies Guide

Description and background. In February 1999, the FASB approved a prospectus for a project to develop an SOP to address the scope of the AICPA Audit and Accounting Guide *Audits of Investment Companies*, which was issued in 1987 and updated only for conforming changes, and the 1998 exposure draft revising that Guide. The scope provisions of the exposure draft are unchanged from the current Guide, and FASB at its July 1998 meeting expressed concern that the scope of the proposed Guide may be unclear. This project will address whether more specific attributes of an investment company can be identified to determine if an entity is within the scope of the Guide. Until this project is finalized, an entity should consistently follow its current accounting policies for determining whether the provisions of the current Guide apply to investees of the entity or to subsidiaries that are controlled by the entity.

Tentative conclusions: AcSEC discussed a preliminary draft of a proposed SOP and reached the following conclusions on significant issues:

- AcSEC supports a two-tier approach under which an entity that is regulated, pools funds of multiple investors, holds itself out to be an investment company, and whose primary business activity involves investing in assets would be classified in the first tier and considered an investment company within the scope of the Guide. An entity that does not meet the conditions in the first tier would be classified in the second tier and required to consider additional conditions.

- AcSEC tentatively concluded that pooling of funds by multiple investors should not be required for an entity classified in the second tier to be considered an investment company within the scope of the Guide.

Current developments and plans. AcSEC is scheduled to discuss a revised draft of the proposed SOP at its December 1999 meeting, with the intention of issuing an exposure draft in the second quarter of 2000.

Staff: Sheila Yu

Allowance For Loan Losses

Description and background. AcSEC has set up a Task Force whose primary objective is to provide additional guidance on the application of GAAP as it relates to the allowance for loan losses. In this context, the Task Force intends to review existing GAAP with a view toward identifying aspects that may need clarification. The initial expectations are that the Task Force will develop an SOP that will provide additional guidance on periodic loan loss provisions and the related allowance for loan losses. The project may result in amendment to the AICPA Audit and Accounting Guide *Banks and Savings Institutions*, any such amendment being subject to and within the provisions of FASB Statement Nos. 5 and 114, *Accounting for Contingencies* and *Accounting by Creditors for Impairment of a Loan*, respectively.

Current developments and plans. In September 1999, the FASB did not object to the prospectus for the project, subject to certain revisions. A task force is preparing for an initial discussion with AcSEC.

Staff: Sydney Garmong

OTHER AcSEC ACTIVITIES

At its September 1999 meeting, AcSEC discussed and approved comment letters on two FASB EDs: *Accounting for Transfers of Financial Assets*, an amendment of FASB Statement No. 125 and Proposed Technical Bulletin No. 99-a, *Classification and Measurement of Financial Assets Securitized Using a Special Purpose Entity*. Both letters expressed support for the FASB proposals, provided certain issues are addressed.

In addition, at its September 1999 meeting AcSEC's Planning Subcommittee cleared comment letters prepared by the AICPA Government Accounting and Auditing Committee on two GASB exposure drafts: a proposed Interpretation titled *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* and a proposed standard titled *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*.

The comment letters will be available on the AICPA web site.

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AcSEC thanks departing AICPA staff member **Elaine Lehnert** for over four years of valuable work with the Insurance Companies Committee and the Accounting Standards Team. We wish her well in her new endeavors.

AcSEC also thanks **Brad Davidson** for his year and a half of service as an AICPA professional fellow. Brad returns to Crowe Chizek LLP. AcSEC welcomes new AICPA professional fellow **Sydney Garmong**, who will be working on AcSEC projects involving financial institutions and financial instruments. She comes to the AICPA from Olive LLP. ❖

Upcoming AcSEC Meetings

AcSEC meetings are open to the public.

October 19–20, 1999	New York, NY
December 14–15, 1999	Norwalk, CT
January 27–28, 2000	New Orleans, LA
March 7–8, 2000	New York, NY

OTHER ACTIVITIES OF THE ACCOUNTING STANDARDS TEAM OF THE AICPA

Acquired In-Process Research and Development (IPR&D)

The Accounting Standards Team is working with a cross section of experts from industry, public accounting firms, the financial analyst community, and appraisal firms to identify best practices related to definitions, accounting, disclosures, valuation, and auditing of acquired IPR&D. The IPR&D task force expects to release its findings in several months. ❖

Comments or Suggestions?

We welcome any comments or suggestions you may have concerning this publication. Please send to *msimon@aicpa.org*, fax to 212–596–6064, or write to Marc Simon at AICPA, 1211 Avenue of the Americas, New York, NY 10036–8775. ❖

AcSEC ON AICPA WEB SITE

Look for information about AcSEC activities on the AICPA web site, "AICPA Online." The AICPA web site address is: *http://www.aicpa.org*, and the area containing information pertaining to AcSEC activities is entitled "Accounting Standards Team." This area can be accessed by clicking in the "choose a topic" section underneath "Information Solutions," selecting "Accounting/Financial Reporting," and clicking on "Go." To view minutes of recent AcSEC meetings, click next on "Technical Status Updates" and then "Highlights of Recent AcSEC Meetings." Or, to obtain a copy of an exposure draft, after clicking on "Go" click on "Technical Documents." ❖

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