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AcSEC UPDATE

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

RECENT AcSEC ACTIVITIES

Loans and Certain Debt Securities Acquired in a Transfer (formerly known as Purchased Loans and Securities) In March 2000, AcSEC approved a final SOP, pending AcSEC's positive clearance of certain revisions and FASB clearance. AcSEC's positive clearance was obtained and the proposed SOP was discussed at a meeting with the FASB in January 2001. The FASB objected to the SOP, citing a conflict with FASB Statement No. 5, *Accounting for Contingencies*. The FASB recommended an additional criterion requiring deterioration in credit quality from origination to purchase. At its April 2001 meeting, AcSEC discussed how to address certain issues raised by the FASB at the clearance meeting. In May 2001, AcSEC submitted a letter to the FASB describing AcSEC's intent to change the scope of the proposed SOP. In June 2001, the FASB did not object to the issuance of a final SOP, *Accounting for Loans and Certain Debt Securities Acquired in a Transfer*, subject to final clearance by the FASB staff. AcSEC expects to issue the SOP during the second quarter of 2002.

Costs and Activities Related to PP&E In July 2001, AcSEC issued an exposure draft of a proposed SOP, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*. Concurrently, the FASB issued an exposure draft of a proposed Statement of Financial Accounting Standards, *Accounting in Interim and Annual Financial Statements for Certain Costs and Activities Related to Property, Plant, and Equipment, an amendment of APB Opinions No. 20 and 28 and FASB Statements No. 51 and 67 and a rescission of FASB Statement No. 73*. That proposed Statement includes amendments to certain FASB pronouncements that would be made in conjunction with issuance of the proposed SOP. The comment period on both the AcSEC and FASB exposure drafts ended on November 15, 2001. Approximately 400 comment letters have been received. The project task force is in the process of reviewing the letters for purposes of discussion with AcSEC in April 2002.

Non-Traditional Long-Duration Insurance Contracts At its September 2001 meeting, AcSEC cleared for exposure, subject to AcSEC’s positive clearance and FASB clearance, the draft SOP *Accounting and Reporting by Insurance Enterprises for Certain Non-Traditional Long-Duration Contracts and for Separate Accounts*. AcSEC’s positive clearance was obtained in March 2002 and, pending FASB clearance, AcSEC expects to issue the exposure draft in the second quarter of 2002.

Real Estate Time-Sharing Transactions At its September 2001 meeting, AcSEC cleared for exposure, subject to AcSEC’s positive clearance and FASB clearance, the draft SOP *Accounting for Real Estate Time-Sharing Transactions*. AcSEC’s positive clearance was obtained in

December 2001, and AcSEC expects to issue the exposure draft (subject to FASB clearance) in the second quarter of 2002.

Allowance for Credit Losses At its March 2002 meeting, AcSEC cleared for exposure, subject to AcSEC's positive clearance and FASB clearance, a draft SOP *Allowance for Credit Losses*. AcSEC expects to issue the exposure draft in the second quarter of 2002.

EFFECTIVE DATES

SOP 00-2, *Accounting by Producers or Distributors of Films*, for fiscal years beginning after December 15, 2000. Earlier application is encouraged.

SOP 00-3, *Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts*; entities must apply the SOP to financial statements no later than the end of the fiscal year that begins after December 15, 2000. Earlier adoption is encouraged.

SOP 01-1, *Amendment to Scope of Statement of Position 95-2,* Financial Reporting by Nonpublic Investment Partnerships*, to Include Commodity Pools*, for financial statements issued for periods ending after December 15, 2001. Earlier application is encouraged.

SOP 01-2, *Accounting and Reporting by Health and Welfare Benefit Plans*, effective for financial statements for plan years beginning after December 15, 2000. Earlier application is encouraged. Financial statements presented for prior plan years are required to be restated to comply with the provisions of this SOP.

Audit and Accounting Guide, *Audits of Investment Companies*, for annual financial statements issued for fiscal years beginning after December 15, 2000, and for interim financial statements issued after initial application. Earlier application is permitted.

SOP 01-5, *Amendments to Specific AICPA Pronouncements for Changes Related to the NAIC Codification*, effective for annual financial statements for fiscal years ending on or after December 15, 2001, and complete sets of interim financial statements for periods beginning on or after that date and audits of those financial statements. Retroactive application is not permitted.

SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others,* for financial statements issued for fiscal years beginning after December 15, 2001. Earlier application is encouraged.

To Order Copies of AcSEC Pronouncements

Call 888-777-7077 (option #1), ask for operator NQ; **order via fax,** 800-362-5066; or **write** AICPA/cpa2biz Order Department, NQ, P.O. Box 2209, Jersey City, NJ 07303–2209. Exposure drafts should be obtained through the AICPA web site; see "AcSEC ON AICPA WEB SITE" later in this issue.

To order final pronouncements online, go to the store www.cpa2biz.com/store and choose Accounting and Auditing, then choose Professional Literature; recent pronouncements should be towards the bottom of the page. Or, go to www.cpa2biz.com and enter the 6-digit product number in the search field.

AcSEC MEMBER ACTIVITIES

Speeches by AcSEC Members

Mark Sever – AcSEC Update, National Association of Real Estate Investment Trusts (NAREIT), Chicago, IL, October 2001

– AcSEC Update, University of Wisconsin undergraduate and graduate accounting classes, Madison, WI, November 2001

– AcSEC Update, University of California at Berkeley 12th Annual Conference on Financial Reporting, San Francisco, CA, November 2001

– AcSEC Update, AICPA National Conference on Banks and Savings Institutions, Washington, DC, November 2001

– AcSEC Update, 29th Annual AICPA National Conference on Current SEC Developments, Washington, DC, December 2001

– AcSEC Update, Financial Executives International (Los Angeles Chapter), Los Angeles, CA, January 2002

Dave Hinshaw – AcSEC Update, 31st Virginia Accounting and Auditing Conference, Roanoke, VA, October 2001, and Norfolk, VA, November 2001

AcSEC AGENDA PROJECTS

-----------------2002----------------- 2003

As of March 31, 2002

	1Q		2Q		3Q		4Q		1Q
Financing and Lending Activities									
Loans and Certain Debt Securities — SOP			**F**						
Certain Entities that Lend or Finance — Guide					**F**				
Allowance for Credit Losses — SOP			**E**						
Investment Industry									
Scope Clarification, Investment Companies Guide — SOP			**E**						
Blockage Factor — SOP							**E**		
Insurance Industry									
Non-Traditional Long-Duration Contracts — SOP			**E**						
DAC on Internal Replacements — SOP							**E**		
Real Estate Industry									
Real Estate Time-Sharing Transactions — SOP			**E**						
Other Projects									
Costs and Activities Related to PP&E — SOP							**F**		
Equity Method Investments (formerly Real Estate Investments; See discussion)									

Codes: **E - Exposure Draft anticipated or actual issuance date**
F - Final Pronouncement anticipated or actual issuance date

AcSEC's CURRENT SOP PROJECTS

Accounting for Loans and Certain Debt Securities Acquired in a Transfer (formerly known as Accounting for Certain Purchased Loans and Debt Securities)

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 a loan's life. Practice Bulletin (PB) 6, *Amortization of Discounts on Certain Acquired Loans*, further addresses amortization of discounts on certain acquired loans, which involves intertwining issues of amortization 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 reached the following conclusions:

For *all* acquisitions of loans (both with and without evidence of deterioration of credit quality since origination), including acquisitions of loans in a purchase business combination:

- 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. This prohibition applies to all purchases of loans, including those in a purchase business combination.

- New disclosures are required, in addition to those already required by other accounting literature, including FASB Statements No. 5, *Accounting for Contingencies*, 114, *Accounting by Creditors for Impairment of a Loan*, 115, *Accounting for Certain Investments in Debt and Equity Securities*, and 118, *Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures*.

Additionally, for loans acquired with evidence of deterioration in credit quality since origination[1]:

- ♦ Investors should estimate cash flows expected to be collected on the loan at purchase and periodically over the life. Cash flows expected to be collected in excess of the initial investment (purchase price) should be recognized as yield (referred to as accretable yield). Contractual cash flows in excess of cash flows expected to be collected (referred to as nonaccretable difference) should not be recognized as yield.

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1 This SOP does not apply to:

- ➢ revolving credit accounts where the customer has revolving privileges at the purchase date (but does apply to accounts where the customer has lost revolving privileges)
- ➢ retained interests
- ➢ receivables from leases
- ➢ loans carried at fair value with changes in fair value included in earnings
- ➢ mortgage loans that are held for sale (which are covered under FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*)

- Probable subsequent decreases in cash flows expected to be collected result in recognition of an impairment rather than being recognized as a prospective yield adjustment over the life of the loan. Probable subsequent increases in cash flows expected to be collected should be recognized prospectively as a yield adjustment.

- If a new, higher yield on a loan is established (due to a probable increase in cash flows to be collected), that higher yield should be used as the effective interest rate in any later test for impairment.

- Loans that are refinanced or restructured after acquisition are prohibited from being accounted for as new loans, other than through a troubled debt restructuring (such loans are already covered by FASB Statements No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, 114, and 115).

- Loans may not be aggregated for purposes of determining evidence of credit deterioration since origination; each loan, whether purchased in a pool or individually, must be individually evaluated. Pooling or aggregation of loans meeting the SOP's scope is allowed subsequently for recognition, measurement, and disclosure purposes. Aggregation is only available to smaller-balance homogeneous loans. To be aggregated, loans must have a common credit risk (such as past due status or credit score) and have a common predominant risk characteristic (such as type of loan or date of origination). Aggregation is limited to loans purchased in the same fiscal quarter.

- With one exception, guidance on recognition of income will not be provided because that guidance does not exist for originated loans. Income recognition is prohibited on loans for which an investor expects to substantially improve the collateral for resale or expects to use the collateral in operations.

- Variable loans with index rate decreases, contractual cash flow decreases, and expected cash flow decreases should be evaluated based on the change in expected cash flows attributable to the decrease in index rates. Those changes should be recognized prospectively rather than as an impairment. The investor must determine the decrease in expected cash flows due to index rate decreases and evaluate those changes against the loan's contractual payments receivable, which must be calculated based on the index rate as it changes over the life of the loan.

Current developments and plans. At its March 2000 meeting, AcSEC approved issuance of a final SOP subject to AcSEC's positive clearance of certain revisions and FASB clearance. AcSEC's positive clearance was obtained and the proposed SOP was discussed at a meeting with the FASB in January 2001. The FASB objected to the SOP, citing a conflict with FASB Statement No. 5. The FASB recommended that a criterion for a loss event be added to require deterioration in credit quality from origination to purchase. At its April 2001 meeting, AcSEC discussed how to address certain issues raised by the FASB at the clearance meeting. In May 2001, AcSEC submitted a letter to the FASB describing AcSEC's intent to change the scope of the proposed SOP. In June 2001, the FASB did not object to the issuance of a final SOP, subject to final clearance by the FASB staff. AcSEC expects to issue the SOP during the second quarter of 2002.

Staff: Sydney Garmong

Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others – Proposed Audit and Accounting Guide

Description and background. SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, issued in December 2001, and this Guide (also referred to as the combined Guide) apply to certain entities that lend to or finance the activities of others. In addition to banks, savings institutions, credit unions, finance companies, corporate credit unions, and mortgage companies, the Guide will also apply to manufacturers, retailers, wholesalers, and other business enterprises that provide financing for products and services.

All entities (except insurance companies and those such as investment companies, broker-dealers, and employee benefit plans, that carry loans receivable at fair value and include gains and losses in earnings) that lend to or finance the activities of others were subject to the provisions of the AICPA Audit and Accounting Guide *Audits of Finance Companies*.

SOP 01-6 reconciles 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* (collectively, the Guides), portions of which have been superseded by the issuance of that SOP. The 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.

This project consists of two parts. First, SOP 01-6 reconciles the specialized accounting and financial reporting guidance established in the Guides. With limited exceptions, the SOP includes guidance for *all* entities engaged in lending and financing activities (including trade receivables). AcSEC believed that this guidance should stand alone in an SOP. If that guidance had been included only in the combined Guide, AcSEC was concerned that preparers and auditors would have focused on the organizational structure of an entity rather than the activities of the entity. In other words, auditors and preparers could have potentially overlooked guidance contained in an industry-specific Guide. In addition to being issued as a stand-alone SOP, the SOP will be included in the combined Guide.

Second, the chapters from the Guides have been combined and redrafted for consistency in a new combined Guide. The draft chapters for the Proposed Audit and Accounting Guide, *Certain Financial Institutions and Entities That Lend to or Finance the Activities of Others,* are available online at: http://www.aicpa.org/members/div/acctstd/edo/chapters.htm

Current developments and plans. The chapters for the combined Guide were posted to the AICPA web site for comment during the first quarter of 2001. AcSEC expects to issue the final combined Guide during the third quarter of 2002.

Staff: Sydney Garmong

Allowance For Credit Losses

Description and background. This project will provide additional guidance, within the framework of existing FASB literature, on periodic credit loss provisions and the related allowance for credit losses. The guidance will apply to all creditors other than state and local governments and entities subject to pronouncements of the Federal Accounting Standards Advisory Board (FASAB).

Tentative conclusions. Some of the tentative conclusions reached by AcSEC are as follows:

- The SOP should address the allowance for credit losses related to all "loans," as that term is defined in FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, except for the following:
  a. Loans that are measured at fair value or at the lower of cost or fair value
  b. Leases accounted for in accordance with FASB Statement No. 13, *Accounting for Leases*
  c. Debt securities, as defined in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*
  d. Loans, other than credit card receivables, that are—
     – accounts receivable with contractual maturities equal to or less than one year and that arose from the sale by the reporting entity of goods or services, or
     – unconditional promises to give that are assets of not-for-profit organizations and that are due in one year or less
  e. Amounts intended to provide security for a counterparty to an agreement with the reporting entity (for example, security deposits, retainages on construction contracts)
  f. Retained beneficial interests in securitization transactions that are accounted for as sales under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and purchased beneficial interests in securitized financial assets. The impairment of beneficial interests is addressed in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets."
- Allowances for credit losses should be established only if available information about past and current events indicates that it is probable that an asset has been impaired or that a loss has been incurred as of the balance sheet date.
- The allowance for credit losses reported on a creditor's balance sheet should consist only of—
  a. A component for specifically identified loans that have been evaluated individually for impairment and that are considered to be individually impaired, with impairment measured in accordance with FASB Statement No. 114.
  b. One or more components for impairment of pools of loans determined in accordance with FASB Statement No. 5, *Accounting for Contingencies*.
- A creditor should not assume that there always would be a single, distinct event that can be identified as the cause of an impairment. Instead, there may be a series of events that have occurred resulting in the impairment of an individual loan or a pool of loans.
- Components of the allowance for credit losses recognized pursuant to FASB Statement No. 5 should be measured based on the present value of expected future cash flows.

- Expected cash flows may be estimated indirectly by estimating cash flows that will not be received.
- The application of a "loss emergence period" is one technique for measuring incurred losses in a pool of loans based on historical loss experience. The SOP would not require back-testing; however, creditors would be required to have a basis for the factor by which a historical loss rate is multiplied.
- The allowance for credit losses should be based on observable data, and changes in the allowance should be directionally consistent with changes in the observable data.
- Observable data must reflect existing conditions and events that have already occurred.
- Observable data may need to be adjusted to take into account environmental changes through the date of the financial statements.
- The starting point for estimating collective loan impairment should be the creditor's historical loss experience.
- Creditors that have no experience or insufficient experience in certain products or markets should use peer group experience to develop collective loan impairment estimates. In order for the peer group experience to be the basis for a reasonable estimate, the specific peer group portfolio must be comparable to the creditor's own portfolio. Once a lender has adequate historical loss experience of its own, it must use that experience.
- The SOP should not prohibit recognition of an amount labeled as "unallocated" or as a "margin for imprecision." However, such a component would need to be supported by relevant observable data. Absent that data, such an allowance component would not be permitted.
- The SOP will require enhanced disclosures to help users understand period-to-period changes in the provision and the resulting allowance for credit losses, and the information used by the creditor to determine estimates for those amounts.
- The SOP would be effective for financial statements for fiscal years beginning after December 15, 2003, with earlier application permitted. The effect of initially applying the SOP would be treated as a change in accounting estimate.

Current developments and plans. At its March 2002 meeting, AcSEC cleared for exposure, subject to AcSEC's positive clearance and FASB clearance, a draft SOP *Allowance for Credit Losses*. AcSEC expects to issue the exposure draft in the second quarter of 2002.

Staff: Fred Gill

Clarification of the Scope of the Investment Companies Guide

Description and background. In February 1999, the FASB cleared a prospectus for a project to develop an SOP to address the scope of the AICPA Audit and Accounting Guide *Audits of Investment Companies*. At that meeting, the FASB expressed concern that the scope of the then proposed Guide may be unclear. (The scope provisions of the Guide, which was issued in November 2000, are unchanged from the previous Guide.) 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 Guide apply to investees of the entity or to subsidiaries that are controlled by the entity.

Tentative conclusions. Some of the tentative conclusions reached by AcSEC are as follows:

- For purposes of the separate financial statements of an entity, the Guide would be applicable to entities that are regulated as investment companies and other entities whose primary business activity involves investing for current income, capital appreciation, or both. The SOP would include conditions that should be evaluated to determine whether the entity's primary business activity is investment activity, including whether investees function as separate autonomous businesses. Entities that meet the investment company conditions would be required to apply the provisions of the Guide in presenting their financial statements. Entities that do not meet those conditions would be prohibited from applying the provisions of the Guide.

- The SOP would also include conditions that must be evaluated to determine whether the specialized industry accounting principles of the Guide applied by a subsidiary or equity method investee should be retained in the financial statements of the parent company or an investor that applies the equity method of accounting to its investments in the entity. Those conditions are intended to evaluate relationships between the parent company or equity method investor and investees that may indicate that investees are not separate autonomous businesses from the parent company or equity method investor. If those conditions are not met, the specialized industry accounting principles of the Guide would not be retained in the financial statements of the parent company or equity method investor and the financial information of the investment company would be adjusted to reflect the accounting principles that would apply to the entity assuming it did not qualify as an investment company within the scope of the Guide.

Current developments and plans. At its October 2000 meeting, AcSEC approved a proposed SOP for exposure, subject to AcSEC's positive clearance and FASB clearance. AcSEC's positive clearance was obtained, and AcSEC representatives presented an educational session to FASB members in July 2001. Because certain aspects of the SOP address consolidation issues, the FASB has delayed a clearance meeting until the first quarter of 2002 to enable the FASB to have the opportunity to discuss certain issues in the FASB's consolidations project. At its March 27, 2002 meeting, the FASB will consider the proposed ED of the SOP.

Staff: Joel Tanenbaum

Non-Traditional Long-Duration Contracts

Description and background. This project will address the classification and valuation of liabilities as well as disclosures for nontraditional annuity and life insurance contracts issued by insurance enterprises.

Tentative conclusions. Some of the tentative conclusions reached by AcSEC are as follows:

- *Separate Account Presentation* – Separate account assets and liabilities should be reported as summary totals in the statement of financial condition, provided that specified criteria are met. For contracts or elements of contracts meeting the criteria, the assets should be reported as summary totals at fair value with an equivalent summary total for liabilities. Assets or liabilities related to contracts or elements of contracts that do not meet the criteria should be accounted for and reported as general account assets and liabilities.

- *Interest in Separate Accounts* – An insurance enterprise's proportionate interest in a separate account does not meet the criteria for separate account reporting and valuation. For separate accounts meeting the separate account criteria whereby the contract holder relationship allows for the purchase at fair value of additional units in the separate accounts or where the insurance enterprise is marketing contracts that permit funds to be invested in the separate account, the assets underlying the insurance enterprise's interest in the separate account should be accounted for in a manner consistent with similar assets held by the general account that the insurance enterprise may be required to sell.

- *Liability Valuation* – The basis for determining the balance that accrues to the contract holder for a long-duration insurance or investment contract that is subject to FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, is the accrued account balance (FASB Statement No. 97, paragraphs 15 and 17a). The accrued account balance equals:
  a) deposit(s) net of withdrawals
  b) plus amounts credited
  c) less fees and charges assessed
  d) plus additional interest
  e) other adjustments (for example, appreciation or depreciation)

  For contracts that have features that may result in more than one potential account balance, the accrued account balance should be based on the highest contractually determinable balance that will be available in cash or its equivalent without reduction for future fees and charges expected to be assessed. The accrued account balance should not reflect any surrender adjustments (for example, market value surrender adjustments, surrender charges or credits).

- *Return Based on a Contractually Referenced Pool of Assets or Index* – For a contract that provides a return based on the total return of a contractually referenced pool of assets either through crediting rates or termination adjustments (or a contractually referenced interest rate index), the accrued account balance should be based on the fair value of the referenced pool of assets (or applicable index value) at the balance sheet date even if the assets are not recognized at fair value.

- *Annuitization Options* – A liability should not be recognized related to the potential effect of annuitization options that represent an elective benefit that is not part of the accumulation phase of a contract.

- *Determining the Significance of Mortality and Morbidity Risk and Classification of Contracts that Contain Death or Other Insurance Benefit Features* – To determine the accounting under FASB Statement No. 97 for a contract that contains death or other insurance benefit features, the insurance enterprise should first determine whether the contract is an investment or universal life-type contract. If the mortality and morbidity risks are other than nominal and the fees assessed or insurance benefits are not fixed and guaranteed, the contract should be classified as a FASB Statement No. 97 universal life-type contract. The determination of significance should be made at contract inception, other than at transition, and should be based on a comparison of the present value of expected excess payments to be made under insurance benefit features to the present value of all amounts assessed against the contract holder (revenues), under reasonably possible outcomes.

- *Accounting for Contracts that Contain Death or Other Insurance Benefit Features* – For contracts classified as insurance contracts having amounts assessed against contract holders each period for the insurance benefit feature that are not proportionate to the insurance coverage provided for the period, a liability should be established in addition to the account balance to recognize the portion of such assessments that compensates the insurance enterprise for benefits to be provided in future periods.

- *Sales Inducements* – Sales inducements provided to the contract holder, whether for an investment or universal life-type contract, should be recognized as part of the liability for policy benefits over the period for which the contract must remain in force for the contract holder to qualify for the inducement or at the crediting date, if earlier, in accordance with the liability valuation guidance of the SOP. No adjustments should be made to reduce the liability related to the sales inducements for anticipated surrender charges, persistency, or early withdrawal contractual features.

    - Sales inducements that are recognized as part of the liability under the guidance of the SOP, are explicitly identified in the contract at inception, and meet the following criteria should be deferred and amortized using the same methodology and assumptions used to amortize capitalized acquisition costs. Depending on the nature of the inducement, the insurance enterprise should demonstrate that such amounts are a) incremental to amounts the enterprise credits on similar contracts without sales inducements, and b) higher than the contract's expected ongoing crediting rates for periods after the inducement; that is, the crediting rate excluding the inducement should be consistent with assumptions used in estimated gross profits or margins, contract illustrations, and interest crediting strategies. The deferred amount should be reported on the balance sheet as an asset and amortization should be reported as a component of benefit expense.

- *Transition* – At the date of initial application of the SOP, an insurance enterprise will have to make various determinations such as: qualification for separate account treatment, FASB Statement No. 115 classification, significance of mortality and morbidity risk, adjustments to contract holder liabilities, and adjustments to estimated gross profits or margins, to determine the cumulative effect of a change in accounting principle from adopting the SOP.

Current developments and plans. At its September 2001 meeting, AcSEC cleared for exposure, subject to AcSEC's positive clearance and FASB clearance, the draft SOP *Accounting and Reporting by Insurance Enterprises for Certain Non-Traditional Long-Duration Contracts and for Separate Accounts*. AcSEC's positive clearance was obtained in March 2002 and, pending FASB clearance, AcSEC expects to issue the exposure draft in the second quarter of 2002.

Staff: Kim Hekker

DAC on Internal Replacements

Description and background. In July 2000, AcSEC's Planning Subcommittee approved a prospectus for an SOP project to provide authoritative guidance on accounting by life insurance enterprises for deferred acquisition costs (DAC) on internal replacements other than those covered by FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. The FASB cleared the prospectus in November 2000.

In June 1999, a Staff Discussion Paper was issued on the topic. The intent of the paper was to determine if diversity exists with regard to accounting by life insurance enterprises for internal replacements other than those covered by FASB Statement No. 97 and, if so, whether accounting guidance should be provided. Eleven comment letters were received, with the majority saying that guidance is needed.

Current developments and plans. The project task force held an educational session at the December 2001 AcSEC meeting. At its January 2002 meeting, AcSEC began discussing project issues, including:

a) What transactions would 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 guidance.
b) How to determine if an internal replacement is substantially different (that is, if the original contract and the replacement contract are substantially different from one another) – the task force proposed that qualitative and quantitative analysis should be considered to determine whether an internal replacement is substantially different. The task force is considering different components of the quantitative computation, and will present recommendations to AcSEC at the April 2002 meeting.
c) How to account for internal replacements – the task force proposed that internal replacements that are deemed substantially different should be accounted for as an extinguishment of the initial contract and treated as a lapse or surrender. If internal replacements are deemed not to be substantially different, the replacement contract 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 considering different approaches to accounting for deferred acquisition costs that should continue to be deferred. The task force will present recommendations to AcSEC at the April 2002 meeting.

The task force also recommended that the guidance in FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, relating to eligibility of costs to be deferred, should be applied in determining if new costs incurred in connection with an internal replacement (that is not substantially different) can be deferred as costs associated with renewals.

The task force is scheduled to continue discussing issues at the April 2002 AcSEC meeting, and intends to present a proposed exposure draft to AcSEC during the third quarter of 2002.

Staff: Kim Hekker

Equity Method Investments (formerly Interests in Unconsolidated Real Estate Investments)

Description and background. This proposed SOP was intended to supersede 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.

Current development and plans. An exposure draft was issued in November 2000 and the comment deadline was April 15, 2001. At its June 2001 meeting, AcSEC discussed the comment letters and observed that many constituents expressed concern that the project would likely be analogized to for investments in other than real estate and that the exposure draft should be considered for re-exposure under a non-real-estate title.

AcSEC considered several possible courses of action that it could take with respect to the project. AcSEC decided that it should prepare a plan of action, including a new prospectus, for a broader equity method accounting project—that is, one applicable to all unconsolidated investments, rather than only real estate investments. The AcSEC project would use the foundation of APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, as a starting point. That is, the equity method of accounting would be considered to be an appropriate and acceptable accounting method for unconsolidated investments. AcSEC would not plan to reconsider whether the equity method of accounting is an acceptable accounting method (versus, for example, fair-value-based methods). The AcSEC project would address the application of the equity method of accounting (including consideration of the hypothetical-liquidation-at-book-value application), as well as which investors should apply the equity method. The plan of action would examine whether amendments to APB Opinion No. 18 may be necessary as part of the AcSEC project, and whether such amendments would be expected to be limited or extensive in nature. AcSEC also plans to review the original prospectus for this project and assess if the issues in that prospectus are unique to real estate investments or if there are broader practice issues.

AcSEC discussed a proposed plan of action and proposed new prospectus at its September 2001 meeting. AcSEC concluded that a narrow-scope project would be more appropriate than one broader in scope. The current project task force redrafted the prospectus for consideration by AcSEC's Planning Subcommittee in the fourth quarter of 2001. The Planning Subcommittee approved the prospectus, subject to certain revisions. If the FASB subsequently clears the

revised prospectus, the task force will be expanded to be more representative of the constituents that the new project would affect.

Staff: Fabiola Ferrer

Real Estate Time-Sharing Transactions

Description and background. AcSEC added this project to its agenda because of diversity in practice caused by a lack of guidance specific to real estate time-sharing transactions.

Issues addressed in this proposed SOP include:

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

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

Basic accounting model – The underlying structural basis for the time-sharing accounting model is the retail land sales model (RLS) of FASB Statement No. 66, *Accounting for Sale of Real Estate*, with inclusion of certain of the fundamental principles of the other-than-retail-land-sales model (OTRLS) of that Statement.

Basic accounting model - Buyer's commitment test – The accounting model's test for buyer's commitment is a 10%-of-principal test, similar to that of RLS, which would be met by receipt by the seller of cumulative down payments of at least 10% of the sales price.

Basic accounting model - Collectibility-of-receivables test – Collectibility is demonstrated by either meeting a test based on collection of 85% of prior similar projects' receivables dollars or by the seller's collection of cumulative principal payments of at least 25% of the sales price.

Basic accounting model - Estimability-of-credit-losses test – The estimability-of-credit-losses test is a non-bright-line test, subject to certain criteria, whereby a time-sharing entity would have to have sufficient collection experience to demonstrate that it can reliably estimate credit losses (analogous to the ability to estimate future returns discussed in FASB Statement No. 48, *Revenue Recognition When Right of Return Exists*).

Meaning of "credit losses" – For purposes of estimating credit losses in the collectibility-of-receivables and estimability-of-credit-losses tests, sales cancelled subsequent to being recorded as sales should be considered as credit losses rather than as "sales reversals." A seller should interpret "credit losses" broadly to include all situations in which, due to credit concerns, less than 100% of a receivable is collected from a buyer. Costs related to credit losses (for example, collection costs) should not be incorporated into the seller's estimate of credit losses but should instead be charged to selling, general, and administrative expense as incurred.

Accounting for estimated and actual credit losses – For sales (meeting the recognition criteria) that, based on historical and statistical information, are not expected to be collected, revenue should be reduced rather than bad debt expense charged.

Accounting for cost of sales and inventory – The relative sales value method should be used to allocate inventory cost and determine cost of sales when inventory relief is recorded as part of a sale.

Passage-of-title requirement – Passage of non-reversionary title is a criterion for treating a time-sharing transaction as a sale rather than a lease.

Rentals of unsold interests – Rentals are considered to be holding-period activities and accounted for as "incidental operations." Incidental operations would be defined as in FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, except that the SOP's definition would not require that the purposes of those operations is to reduce the cost of developing the property for its intended use. Time-sharing interests should be accounted for as inventory rather than fixed assets, and should therefore not be depreciated during times of rental.

Expensing versus deferral of selling costs – Selling costs should be accounted for using the "directly associated" approach of paragraph 18 of FASB Statement No. 67, modified to include some restrictions similar to those in FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*.

Time-sharing special purpose entities (SPEs) – The issue involves SPE structures in which a seller transfers deeded title to a trust or third party (the SPE) in exchange for stock or other interests in the SPE, which the seller then sells to the time-share buyers. Sales should be recorded only upon the sale of the stock or interests to the time-share buyer, not upon transfer of title to the SPE. Generally, an SPE should be viewed as a non-substantive entity established to facilitate sales, and the seller should present in its balance sheet the unsold interests in the SPE as time-share inventory rather than apply consolidation or some other accounting method to the seller's interests in the SPE as the seller's ownership percentage in the SPE decreases during the sell-out of a project.

Amendments to Level A GAAP – When the final SOP is issued, the FASB would remove from FASB Statement No. 66 the guidance related to time-sharing; that Statement would direct the reader to the SOP for guidance. The FASB would also modify FASB Statement No. 67 to exclude time-sharing transactions from the section in the Statement entitled "Costs Incurred to Sell Real Estate Projects" in view of the SOP's prescribed "incremental" accounting for time-sharing selling costs.

Current developments and plans. At its September 2001 meeting, AcSEC approved for exposure, subject to AcSEC's positive clearance of certain revisions and FASB clearance, the draft SOP *Accounting for Real Estate Time-Sharing Transactions*. AcSEC's positive clearance was obtained in December 2001 and AcSEC expects to issue the exposure draft (subject to FASB clearance) in the second quarter of 2002.

Staff: Marc Simon

Certain Costs and Activities Related to Property, Plant, and Equipment

Description and background. Diversity in practice concerning the recording of costs for improvements, replacements, betterments, additions (and terms synonymous with those such as redevelopments, refurbishments, renovations, and rehabilitations), and repairs and maintenance is currently one of the most prevalent problems in the real estate industry. In March 2000, AcSEC expanded the scope of the project beyond real estate to address the accounting for property, plant, and equipment (PP&E) and the accounting for overhaul costs. The FASB approved a revised prospectus for the project. The project addresses accounting and disclosure issues related to determining which costs related to PP&E assets should be capitalized as improvements and which should be charged to expense as repairs and maintenance. The SOP will also address capitalization of indirect and overhead costs and component accounting for PP&E assets.

Tentative conclusions. Some of the significant conclusions reached by AcSEC are as follows:

- The SOP would use a "project stage" framework whereby guidance would be provided in terms of each of the various stages of a PP&E project. The stages would include *preliminary* (occurring prior to acquisition of specific PP&E being probable), *preacquisition* (occurring subsequent to acquisition of specific PP&E being probable but prior to acquisition or construction), *acquisition-or-construction*, and *in-service* (beginning at the time acquisition or construction of PP&E is substantially complete and the PP&E is ready for its intended use).

- Except for the costs of options, preliminary stage costs would be charged to expense as incurred.

- Costs related to PP&E incurred during the acquisition-or-construction stage would be capitalized if the costs are directly identifiable with the specific PP&E. Directly identifiable costs include only:
    - Incremental direct costs of acquiring, constructing, or installing the PP&E incurred in transactions with independent third parties for the specific PP&E.
    - Certain costs directly related to specified activities performed by the entity for the acquisition, construction, or installation of the specific PP&E.

  General and administrative costs and overhead costs would be charged to expense as incurred. Similar conclusions on capitalization versus expensing would apply to costs related to PP&E incurred during the preacquisition stage.

- Costs related to PP&E that are incurred during the in-service stage, including costs of normal, recurring, or periodic repairs and maintenance activities, would be charged to expense as incurred unless the costs are incurred for (1) the acquisition of additional PP&E or components of PP&E or (2) the replacement of existing PP&E or components of PP&E. Removal costs would be charged to expense as incurred.

- The costs of planned major maintenance activities are not a separate PP&E asset or component. Those costs would be capitalized to the extent they are capitalizable under the in-service stage guidance of the SOP and represent additions or replacements, and would otherwise be charged to expense as incurred.

- A component is a tangible part or portion of PP&E that (1) can be separately identified as an asset and depreciated over its own expected useful life and (2) is expected to provide economic benefit for more than one year. If a component has an expected useful life that differs from the expected useful life of the PP&E asset to which it relates, the cost would be accounted for separately and depreciated or amortized over its expected useful life.

- If an entity replaces a part or portion of a PP&E asset that has not been previously accounted for as a separate component, and the replacement meets the definition of a component, the entity would capitalize the replacement, account for it as a separate component going forward, estimate the net book value of the replaced item, and charge the net book value of the replaced item to expense in the period of replacement.

- The SOP would be effective for financial statements for fiscal years beginning after June 15, 2002, with earlier application encouraged. For PP&E owned or leased by an entity prior to the adoption date, the component accounting guidance in the SOP would be applied using one of the following two alternatives: (a) apply component accounting for all PP&E assets retroactively, to the extent practicable, on the adoption date, and for those assets for which component accounting is not used retroactively, alternative (b) would be applied, or (b) do not apply component accounting retroactively, and in future periods when an entity incurs capitalizable costs for PP&E that replace PP&E for which component accounting has not been used, the entity would estimate the remaining net book value of the asset replaced and charge that amount to expense. Entities that previously accounted for planned major maintenance activities under methods other than the one prescribed in the SOP would record a cumulative effect adjustment as of the date of adoption. All other costs that were charged to expense prior to adoption that would be capitalized after adoption, or vice versa, would not be reclassified accordingly.

Current developments and plans. In July 2001, AcSEC issued an exposure draft of a proposed SOP, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*. Concurrently, the FASB issued an exposure draft of a proposed Statement of Financial Accounting Standards, *Accounting in Interim and Annual Financial Statements for Certain Costs and Activities Related to Property, Plant, and Equipment, an amendment of APB Opinions No. 20 and 28 and FASB Statements No. 51 and 67 and a rescission of FASB Statement No. 73*. That proposed Statement includes amendments to certain FASB pronouncements that would be made in conjunction with issuance of the proposed SOP. The comment period on both the AcSEC and FASB exposure drafts ended November 15, 2001. Approximately 400 comment letters have been received. The project task force is in the process of reviewing the letters for purposes of discussion with AcSEC in April 2002.

Staff: Marc Simon

Blockage Factor to Value an Unrestricted Investment That Has a Quoted Market Price

Description and background. In August 2001, the FASB approved a prospectus for a project to develop an SOP to address whether it is appropriate to require an entity within the scope of the AICPA Audit and Accounting Guide *Audit of Investment Companies* to use a blockage factor to estimate the fair value of an unrestricted investment that has a quoted marked price in an active market. Currently some entities use a blockage factor to determine fair value. The Guide provides that if an entity's accounting policy, in investment company financial statements issued for fiscal years ending on or before May 31, 2000, was to apply a blockage factor in estimating the fair value of certain unrestricted investments that have a quoted market price in an active market, that entity may continue to apply that policy, with disclosure, to those and similar investments. Otherwise, an entity may not elect to adopt such a policy pending completion of the AcSEC project on this matter or the FASB's project on measuring financial instruments at fair value.

Current developments and plans. An AcSEC discussion of key issues is planned for the April 2002 AcSEC meeting.

Staff: Fabiola Ferrer

OTHER AcSEC ACTIVITIES

AcSEC met with the AICPA Technical Issues Committee (TIC) to discuss matters of mutual interest.

AcSEC will have its annual liaison meeting with FASB Board members at AcSEC's April 2002 meeting.

AcSEC's Planning Subcommittee will meet with representatives from the Association for Investment Management and Research (AIMR) in April 2002 to discuss matter of mutual interest.

NEW AND POTENTIAL FUTURE AcSEC PROJECTS

Accounting for Certain Customer Acquisition Costs AcSEC's Planning Subcommittee added to AcSEC's agenda a project to provide guidance on accounting for certain customer acquisition costs. The issue to be addressed is under which circumstances, if any, should an entity defer and amortize customer acquisition costs. Currently there is diversity in practice. The project would not address areas that are specifically covered by higher level GAAP, including FASB Statements No. 60, *Accounting and Reporting by Insurance Enterprises*, and 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. Other AcSEC standards, including SOP 93-7, *Reporting on Advertising Costs*, that include guidance for customer acquisition costs may be amended. In March 2001, the FASB considered a prospectus for the project and expressed concerns about whether AcSEC should undertake the project. Alternatives explored by the FASB included the FASB

undertaking the project, with AcSEC perhaps developing initial background information that might assist the Board in its project, if any. The Board asked AcSEC to revise the prospectus to clarify the scope of the project, define the potential asset, and indicate the anticipated direction of the project. The FASB will reconsider the prospectus after those revisions are made. AcSEC's Planning Subcommittee is considering a two-track approach. (Track one focuses on issues specific to SOP 93-7 on direct-response advertising and Track two focuses on broader issues related to certain costs paid directly to the customer or to an independent third party to establish the customer relationships.) Each track is intended to result in an SOP, and neither track is conditioned on the other.

Staff: Joel Tanenbaum

Risk Transfer in Mortgage Reinsurance Arrangements In September 2001, AcSEC's Planning Subcommittee approved a prospectus for an SOP project to provide guidance on the accounting and procedures for assessing risk transfer on mortgage reinsurance arrangements that involve the participation of a mortgage lender or its affiliates. AcSEC expects to discuss the prospectus with the FASB during the first quarter of 2002.

The project task force conducted an educational session at the December 2001 AcSEC meeting and discussed background information on and applicability of FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, at the March 2002 AcSEC meeting. AcSEC tentatively concluded that FASB Statement No. 113 should be applied to mortgage reinsurance arrangements to determine risk transfer. Assuming FASB clearance of the prospectus, the task force plans to begin discussing preliminary views of FASB Statement No. 113 at AcSEC's April 2002 meeting.

Staff: Kim Hekker

FAS 133 Implementation in Health Care Industry In October 2001, AcSEC's Planning Subcommittee approved the formation of a task force to draft an SOP, subject to FASB clearance of the project prospectus, addressing the implementation of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* in the health care industry. Specifically, the SOP will address how not-for-profit health care organizations should report gains or losses on hedging and nonhedging derivative instruments under FASB Statement No. 133 and will clarify certain matters with respect to the performance indicator (earnings measure) reported by such organizations.

At its March 2002 meeting, AcSEC voted to approve a draft SOP, subject to certain revisions, for presentation to the FASB in April 2002. The proposed SOP would require prospective transition (with no option allowed for restatement) and pro-forma disclosure of how the current year would have been impacted if presented on a basis consistent with the prior years (similar to the requirement for changes in estimate in APB Opinion No. 20, *Accounting Chan*ges). Under the proposed SOP, not-for-profit and health care organizations would exclude from the performance indicator the effective portion of changes in derivatives accounted for as cash flow hedges. The ineffective portion of changes in the fair value of cash flow hedges, changes in the fair value of derivative instruments that do not qualify for hedge accounting, and changes in the

fair value of derivatives that are fair value hedges would be included in the performance indicator.

Staff: Annette Schumacher

NPOs Costs of Soliciting Contributed Services In December 2001, AcSEC's Planning Subcommittee approved a prospectus, subject to the AcSEC Chair's clearance and FASB clearance, of a project to amend the Audit and Accounting Guide *Not-for-Profit Organizations* (the Guide) 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*. The Guide provides that the costs of soliciting contributed services should be reported as fundraising, regardless of whether the services meet the recognition criteria in FASB Statement No. 116. In practice, however, some have misunderstood the Guide as permitting (and perhaps requiring) the costs of soliciting contributed services that do not meet the recognition criteria to be reported as costs of the activity for which the services are provided (program services, general and administrative, fundraising, and so forth), rather than reporting those costs as fundraising in all circumstances. The aim of the project is to develop an SOP amending the Guide to either *(1)* articulate the current category (b) GAAP more clearly in the Guide or *(2)* revise the Guide and provide that costs of soliciting some or all contributed services that do not meet the recognition criteria in FASB Statement No. 116 should not be reported as fundraising. At its March 27, 2002 meeting, the FASB will consider a prospectus for the project.

Staff: Joel Tanenbaum

UPCOMING AcSEC MEETINGS

AcSEC meetings are open to the public.

April 30-May 1, 2002 New York, NY
June 11-12, 2002 New York, NY
July 25-26, 2002 Toronto, Canada
September 18-19, 2002 New York, NY
October 22-23, 2002 New York, NY
December 5-6, 2002 To be determined

AcSEC ON AICPA WEB SITE

Look for information about AcSEC activities on the AICPA web site, AICPA Online. The AICPA web site address is www.aicpa.org. Scroll down to Site Directory, click on AICPA Teams, then on Accounting Standards Team. To view minutes of recent AcSEC meetings, click next on Technical Status Updates and then Highlights of Recent AcSEC Meetings. To obtain a copy of an exposure draft, after clicking on Accounting Standards Team click on Technical Documents. To obtain copies of documents discussed at AcSEC meetings, after clicking on Accounting Standards Team click on General Announcements and then AcSEC Meeting Information.

OTHER ACTIVITIES OF THE ACCOUNTING STANDARDS TEAM OF THE AICPA (NON-AcSEC ACTIVITIES)

GASB's New Financial Reporting Model Affects AICPA Audit and Accounting Guides

On June 30, 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The standard significantly changes the financial reporting model that governments have been following. The standard is effective in three phases. Large governments (total annual revenues of $100 million or more) will have to implement the standard for periods beginning after June 15, 2001. Medium-size governments (total annual revenues of $10 million or more but less than $100 million) have until periods beginning after June 15, 2002 to implement the standard. Smaller governments (total annual revenues of less than $10 million) have until periods beginning after June 15, 2003 to implement the standard.

As a result of Statement No. 34, the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units* needed significant revisions to reflect the new accounting requirements as well as to address a number of related audit issues. An AICPA task force was established in mid-1999 to work on the project. Early on, the task force decided that it would not develop new accounting requirements in the Guide revision. Instead, the plan was to conform the accounting guidance included in the Guide to Statement No. 34's requirements.

Because there are no new accounting requirements to be included in the Guide revision, it was not necessary for full AcSEC deliberation and exposure. Instead, AcSEC representatives reviewed the changes made by the task force to conform the Guide to Statement No. 34. In January 2002, representatives of AcSEC and the AICPA Auditing Standards Board completed their reviews and approved the Guide's release to the GASB for clearance. At its March 7, 2002 meeting, the GASB voted to clear the Guide, subject to a number of changes in various parts of the document. AICPA staff is currently working closely with GASB staff to resolve all remaining GASB comments.

Issuance of a final Guide is expected in September 2002.

Staff: Mary Foelster

Valuing Privately-Held-Company Equity Securities Issued in Other Than a Business Combination

The Accounting Standards Team is working with a cross section of experts from industry, public accounting firms, academia, and valuation firms to identify best practices related to valuation of privately-held-company equity securities that are issued in other than a business combination.

The project is in its early stages. The final product is currently expected to be an AICPA Practice Aid addressing valuation and related accounting/disclosure and auditing issues.

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.

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