FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2010-26
October 2010

Financial Services—Insurance (Topic 944)

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*™

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The current definition of *acquisition costs* in the Master Glossary of the *FASB Accounting Standards Codification*™ is "costs that vary with and are primarily related to the acquisition of insurance contracts." Costs that meet that definition are typically recognized as assets and are commonly referred to as *deferred acquisition costs*.

Deferred acquisition costs are amortized over time using amortization methods dependent upon the nature of the underlying insurance product (that is, proportional to revenues, based on a contract's estimated gross profit, or based on a contract's estimated gross margin). Other costs that do not vary with and are not primarily related to the acquisition of new and renewal insurance contracts—such as those relating to investment management, general administration, and policy maintenance—are charged to expense as incurred.

As a result of the diversity in practice relating to the interpretation of which costs qualify as deferrable acquisition costs within the insurance industry, certain stakeholders initially raised the question of whether advertising costs meet the definition of acquisition costs. However, interpretation of the phrase *vary with and are primarily related to* raises a broader conceptual issue that also applies to other types of costs; therefore, application of the amendments in this Update are not limited to advertising costs.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect insurance entities that are within the scope of Topic 944, Financial Services—Insurance (which includes but is not limited to stock life insurance entities, mutual life insurance entities, and property and liability insurance entities), that incur costs in the acquisition of new and renewal insurance contracts.

What Are the Main Provisions?

The amendments in this Update specify that the following costs incurred in the acquisition of new and renewal contracts should be capitalized in accordance with the amendments in this Update:

1. Incremental direct costs of contract acquisition. Incremental direct costs are those costs that result directly from and are essential to the contract transaction(s) and would not have been incurred by the insurance entity had the contract transaction(s) not occurred.
2. Certain costs related directly to the following acquisition activities performed by the insurer for the contract:
   a. Underwriting
   b. Policy issuance and processing
   c. Medical and inspection
   d. Sales force contract selling.

The costs related directly to those activities include only the portion of an employee's total compensation (excluding any compensation that is capitalized as incremental direct costs of contract acquisition) and payroll-related fringe benefits related directly to time spent performing those activities for actual acquired contracts and other costs related directly to those activities that would not have been incurred if the contract had not been acquired.

Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in Subtopic 340-20, Other Assets and Deferred Costs—Capitalized Advertising Costs, are met. If those criteria are met, the direct-response advertising costs should then be included as deferred acquisition costs for classification, subsequent measurement, and premium deficiency purposes in accordance with Topic 944. If the capitalization criteria in Subtopic 340-20 are not met, advertising costs are not included as deferred acquisition costs and should be accounted for in accordance with the guidance in Subtopic 720-35, Other Expenses—Advertising Costs.

All other acquisition-related costs—including costs incurred by the insurer for soliciting potential customers, market research, training, administration, unsuccessful acquisition or renewal efforts, and product development—should be charged to expense as incurred. Administrative costs, rent, depreciation, occupancy, equipment, and all other general overhead costs are considered indirect costs and should be charged to expense as incurred.

If the initial application of the amendments in this Update results in the capitalization of acquisition costs that had not been capitalized previously by an entity, the entity may elect not to capitalize those types of costs.

The amendments in this Update do not affect the guidance in paragraphs 944-30-25-4 through 25-5, which prohibits the capitalization of certain costs incurred in obtaining universal life-type contracts.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update modify the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. This revised definition may represent a significant change in practice for many insurance entities. For example, many insurance entities capitalize costs relating to unsuccessful contract acquisitions. The amendments in this Update specify that the costs must be based on successful efforts (that is, acquiring a new or renewal contract). The amendments also specify that advertising costs only should be included as deferred acquisition costs if the direct-response advertising criteria in Subtopic 340-20 are met.

The Board has an ongoing joint project on its agenda with the IASB on the accounting for insurance contracts. The Boards' current view in that project is that incremental acquisition costs incurred for a long-duration contract should be included in the determination of the cash outflows of that insurance contract. The IASB's current position also would apply to short-duration contracts, while the FASB has not concluded on the treatment of incremental acquisition costs for short-duration contracts. The guidance from that joint project, if finalized, is currently not expected to be effective before 2014. By clarifying the acquisition costs that can be deferred now, the amendments in this Update improve current GAAP by providing a clearer definition of a qualifying capitalizable acquisition cost and, therefore, limit the significant diversity in practice that has developed in this area, particularly as it relates to the capitalization of costs related to unsuccessful acquisition efforts.

When Will the Amendments Be Effective?

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The amendments in this Update should be applied prospectively upon adoption. Retrospective application to all prior periods presented upon the date of adoption also is permitted, but not required. Early adoption is permitted, but only at the beginning of an entity's annual reporting period.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The guidance on deferred acquisition costs under IFRS is limited and is subject to significant judgment. IFRS neither prohibits nor requires the deferral of acquisition costs, nor does it prescribe which acquisition costs are deferrable, the period and method of their amortization, or whether an insurer should present deferred acquisition costs as an asset or as a reduction in insurance liabilities. IFRS 4, *Insurance Contracts,* is an interim standard and does not address the accounting for acquisition costs because in some cases those costs were an integral part of existing models and could not be amended easily without a more fundamental review of those models. While not necessarily applicable to insurance contracts, International Accounting Standard 39, *Financial Instruments: Recognition and Measurement,* limits capitalizable transaction costs for financial instruments to incremental costs that are directly attributable to the acquisition, issuance, or disposal of a financial asset or liability. IAS 39 defines an incremental cost as one that would not have been incurred if the entity had not acquired, issued, or disposed of the financial instrument.

Under the joint project on accounting for insurance contracts, the Boards have made preliminary conclusions on the accounting for acquisition costs. Those conclusions are tentative and could change upon further deliberation of the overall insurance models proposed by the Boards.

Amendments to the *FASB Accounting Standards Codification*™

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–13. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Amend the Master Glossary term *Acquisition Costs,* with a link to transition paragraph 944-10-65-1, as follows:

Acquisition Costs

~~Costs incurred in the acquisition of new and renewal insurance contracts. Acquisition costs include those costs that vary with and are primarily related~~ <u>Costs that are related directly</u> to the <u>successful</u> acquisition of <u>new or renewal</u> insurance contracts.

3. Add the Master Glossary term *Incremental Direct Cost of Contract Acquisition*, with a link to transition paragraph 944-10-65-1, as follows:

<u>**Incremental Direct Cost of Contract Acquisition**</u>

<u>A cost to acquire an insurance contract that has both of the following characteristics:</u>

- <u>a. It results directly from and is essential to the contract transaction(s).</u>
- <u>b. It would not have been incurred by the insurance entity had the contract transaction(s) not occurred.</u>

Amendments to Subtopic 944-30

4. Supersede paragraph 944-30-25-1 and add paragraphs 944-30-25-1A through 25-1B, with a link to transition paragraph 944-10-65-1, as follows:

Financial Services—Insurance—Acquisition Costs

Recognition

944-30-25-1 Paragraph superseded by Accounting Standards Update No. 2010-26.~~**Acquisition costs** shall be capitalized. To associate such costs with related premium revenue, acquisition costs shall be allocated by groupings of insurance contracts consistent with the entity's manner of acquiring, servicing, and measuring the profitability of its insurance contracts.~~ **[Content moved to paragraph 944-30-25-1B]**

944-30-25-1A An insurance entity shall capitalize only the following as acquisition costs related directly to the successful acquisition of new or renewal insurance contracts:

a. **Incremental direct costs of contract acquisition**
b. The portion of the employee's total compensation (excluding any compensation that is capitalized as incremental direct costs of contract acquisition) and payroll-related fringe benefits related directly to time spent performing any of the following acquisition activities for a contract that actually has been acquired:
    1. Underwriting
    2. Policy issuance and processing
    3. Medical and inspection
    4. Sales force contract selling.
c. Other costs related directly to the insurer's acquisition activities in (b) that would not have been incurred by the insurance entity had the acquisition contract transaction(s) not occurred.
d. Advertising costs that meet the capitalization criteria in paragraph 340-20-25-4.

944-30-25-1B ~~**Acquisition costs** shall be capitalized.~~ To associate ~~such costs~~ **acquisition costs** with related premium revenue, capitalized acquisition costs shall be allocated by groupings of insurance contracts consistent with the entity's manner of acquiring, servicing, and measuring the profitability of its insurance contracts. **[Content amended as shown and moved from paragraph 944-30-25-1]**

5. Amend paragraph 944-30-25-2, with a link to transition paragraph 944-10-65-1, as follows:

944-30-25-2 Paragraph 944-720-25-2 requires that an insurance entity charge to expense as incurred certain other costs.~~costs incurred during the period—such as those relating to investments, general administration, and policy maintenance—that do not vary with and are not primarily related to the acquisition of new and renewal insurance contracts shall be charged to expense as incurred.~~

6. Amend paragraph 944-30-50-1, with a link to transition paragraph 944-10-65-1, as follows:

Disclosure

944-30-50-1 Insurance entities shall disclose all of the following in their financial statements:

a. The nature and type of **acquisition costs** capitalized
b. The method of amortizing capitalized acquisition costs
c. The amount of acquisition costs amortized for the period.

7. Amend paragraph 944-30-55-1 and its related heading and add paragraphs 944-30-55-1A through 55-1G and their related headings, with a link to transition paragraph 944-10-65-1, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > ~~Acquisition Costs~~Incremental Direct Costs of Contract Acquisition

944-30-55-1 ~~All of the following costs vary with and are primarily related to insurance contracts issued or renewed during the period in which the costs are incurred and shall be considered **acquisition costs**:~~ Paragraph 944-30-25-1A(a) requires that an insurance entity capitalize **incremental direct costs of contract acquisition**. Such costs include the following:

a. ~~Agent and broker commissions~~An agent or broker commission or bonus for successful contract acquisition or acquisitions.
b. Subparagraph superseded by Accounting Standards Update 2010-26.~~Salaries of certain employees involved in the underwriting and policy issue functions~~
c. Medical and inspection fees for successful contract acquisition or acquisitions.

> > Other Contract Acquisition Costs

944-30-55-1A Examples of other costs related directly to the insurer’s acquisition activities in paragraph 944-30-25-1A(b) that would not have been incurred by the insurance entity had the acquisition contract transaction(s) not occurred include all of the following:

a. Reimbursement of costs for air travel, hotel accommodations, automobile mileage, and similar costs incurred by personnel relating to the specified activities
b. Costs of itemized long-distance telephone calls related to contract underwriting
c. Reimbursement for mileage and tolls to personnel involved in on-site reviews of individuals before the contract is executed.

> > > Other Contract Acquisition-Related Costs

944-30-55-1B Costs for software dedicated to contract acquisition are not eligible for deferral as deferred **acquisition costs** under the definition of that term. Such costs are not other costs related to those activities that would not have been incurred but for that contract under the definition of that term.

944-30-55-1C Payroll-related fringe benefits include any costs incurred for employees as part of the total compensation and benefits program. Examples of such benefits include all of the following:

a. Payroll taxes
b. Dental and medical insurance
c. Group life insurance
d. Retirement plans
e. 401(k) plans
f. Stock compensation plans, such as stock options and stock appreciation rights
g. Overtime meal allowances.

> > Cost Determination

944-30-55-1D This Subtopic does not specify how costs are to be determined but rather what costs must be deferred. In many instances, standard costing may be used to estimate the costs to be deferred in accordance with this Subtopic. For certain contracts, the cost of acquisition may be similar and standard costing may be appropriate for those contracts, while other contracts may be of such a nature that costs must be identified separately. Insurers may use any one or a combination of methods that will provide adequate information to report financial results in accordance with this Subtopic. Development of a standard costing system will require periodic analysis of variances and, if necessary, adjustment of standard costing estimates. Possible standard costing methods that may be used to measure costs applicable to transactions that have occurred include standard costs, actual costs, job process costs (for example, homogeneous policies), or job order costs (for example, specific contracts).

944-30-55-1E The successful-efforts accounting notion utilized at an entity-wide level may result in a standard costing system that does not accurately reflect the amount of costs that may be deferred and amortized under this Subtopic. Successful acquisition efforts can be determined as a percentage of each function (for example, application, underwriting, and medical and inspection) and may be based on the percentage, adjusted for idle time and time spent on activities for which the related costs cannot be deferred, of successful and unsuccessful efforts determined for each function.

944-30-55-1F All other contract acquisition-related costs, including costs related to activities performed by the insurer for soliciting potential customers (except direct-response advertising capitalized in accordance with paragraph 944-30-25-

1A(d)), market research, training, and administration, should be charged to expense as incurred. Employees' compensation and fringe benefits related to those activities, unsuccessful contract acquisition efforts, and idle time should be charged to expense as incurred. Administrative costs, rent, depreciation, and all other occupancy and equipment costs are considered indirect costs and should be charged to expense as incurred.

944-30-55-1G The portion of total compensation of executive employees that relates directly to the time spent approving successful contracts may be deferred as acquisition costs under the definition of that term. For example, the amount of compensation allocable to time spent by members of a contract approval committee is a component of acquisition costs.

Amendments to Subtopic 944-720

8. Amend paragraphs 944-720-25-1 through 25-2, with a link to transition paragraph 944-10-65-1, as follows:

Financial Services—Insurance—Other Expenses

Recognition

944-720-25-1 ~~Paragraph 944-30-25-1~~ Paragraph 944-30-25-1A ~~states that costs that are~~ requires that an insurance entity capitalize certain **acquisition costs** directly related to successful contracts.~~shall be capitalized.~~

944-720-25-2 ~~Other costs incurred during the period—such as those relating to investments, general administration, policy maintenance, product development expenses, market research expenses, and general overhead—that do not vary with and are not primarily related to the acquisition of new and renewal insurance contracts shall be charged to expense as incurred.~~An insurance entity shall charge to expense as incurred any of the following costs:

a. An acquisition-related cost that cannot be capitalized in accordance with paragraph 944-30-25-1A (for implementation guidance, see paragraph 944-720-55-1)
b. An indirect cost (for implementation guidance, see paragraph 944-720-55-2).

9. Add paragraphs 944-720-55-1 through 55-2 and their related headings, with a link to transition paragraph 944-10-65-1, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > Certain Acquisition-Related Costs

944-720-55-1 This implementation guidance addresses paragraph 944-720-25-2(a), which requires that an insurance entity charge to expense as incurred any acquisition-related cost that cannot be capitalized in accordance with paragraph 944-30-25-1A. Such costs include costs of all of the following:

a. Soliciting potential customers (except direct-response advertising capitalized in accordance with paragraph 944-30-25-1A(d))
b. Market research
c. Training
d. Administration
e. Unsuccessful acquisition or renewal efforts (except direct-response advertising capitalized in accordance with paragraph 944-30-25-1A(d))
f. Product development.

> > Indirect Costs

944-720-55-2 This implementation guidance addresses paragraph 944-720-25-2(b), which requires that an insurance entity charge to expense as incurred any indirect cost. Such costs include all of the following:

a. Administrative costs
b. Rent
c. Depreciation
d. Occupancy costs
e. Equipment costs (including data processing equipment dedicated to acquiring insurance contracts)
f. Other general overhead.

10. Add paragraph 944-10-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2010-26, *Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*

944-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-26, *Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts:*

a. An entity shall apply the pending content that links to this paragraph in either of the following ways:
   1. Prospectively in fiscal years beginning after December 15, 2011, and interim periods within those fiscal years. If an entity applies the

pending content that links to this paragraph prospectively, an entity shall disclose either of the following instead of the disclosure required by paragraph 250-10-50-1(b)(2) in the period of adoption:

i. The amount of **acquisition costs** that would have been capitalized during the corresponding period immediately preceding adoption as if the guidance in the pending content that links to this paragraph had been applied during that period compared with the amount previously capitalized during that period.

ii. The amount of acquisition costs capitalized during the period of adoption compared with the amount of acquisition costs that would have been capitalized during the period if the entity's previous policy had been applied during that period.

2. Retrospectively to all prior periods as described in paragraphs 250-10-45-6 through 45-7. If an entity applies the pending content that links to this paragraph retrospectively, an entity is not required to make the disclosure required by paragraph 250-10-50-1(b)(2) for the period of adoption.

b. Earlier application of the pending content that links to this paragraph is permitted but shall be applied as of the beginning of an entity's annual reporting period.

c. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period the entity adopts the pending content that links to this paragraph except as noted above for paragraph 250-10-50-1(b)(2).

d. If the application of the pending content would result in the capitalization of acquisition costs that had not previously been capitalized by the entity before adoption of the pending content, the entity may elect not to capitalize those types of costs.

11. Amend paragraph 944-10-00-1 as follows:

944-10-00-1 The following table identifies the changes made to this Subtopic.~~No updates have been made to this subtopic.~~

Paragraph Number	Action	Accounting Standards Update	Date
944-10-65-1	Added	2010-26	10/13/2010

12. Amend paragraph 944-20-00-1 by adding the following item to the table:

944-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	~~Codification Update~~Accounting Standards Update	Date
Acquisition Costs	Amended	2010-26	10/13/2010

13. Amend paragraph 944-30-00-1 as follows:

944-30-00-1 The following table identifies the changes made to this Subtopic.~~No updates have been made to this subtopic.~~

Paragraph Number	Action	Accounting Standards Update	Date
Acquisition Costs	Amended	2010-26	10/13/2010
Incremental Direct Cost of Contract Acquisition	Added	2010-26	10/13/2010
944-30-25-1	Superseded	2010-26	10/13/2010
944-30-25-1A	Added	2010-26	10/13/2010
944-30-25-1B	Added	2010-26	10/13/2010
944-30-25-2	Amended	2010-26	10/13/2010
944-30-50-1	Amended	2010-26	10/13/2010
944-30-55-1	Amended	2010-26	10/13/2010
944-30-55-1A through 55-1G	Added	2010-26	10/13/2010

14. Amend paragraph 944-40-00-1 as follows:

944-40-00-1 The following table identifies the changes made to this Subtopic.~~No updates have been made to this subtopic.~~

Paragraph Number	Action	Accounting Standards Update	Date
Acquisition Costs	Amended	2010-26	10/13/2010

15. Add paragraph 944-60-00-1 as follows:

944-60-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Acquisition Costs	Amended	2010-26	10/13/2010

16. Amend paragraph 944-605-00-1, by adding the following item to the table, as follows:

Paragraph Number	Action	Accounting Standards Update	Date
Acquisition Costs	Amended	2010-26	10/13/2010

17. Add paragraph 944-720-00-1 as follows:

944-720-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Acquisition Costs	Amended	2010-26	10/13/2010
944-720-25-1	Amended	2010-26	10/13/2010
944-720-25-2	Amended	2010-26	10/13/2010
944-720-55-1	Added	2010-26	10/13/2010
944-720-55-2	Added	2010-26	10/13/2010

18. Add paragraph 944-805-00-1 as follows:

944-805-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Acquisition Costs	Amended	2010-26	10/13/2010

19. Add paragraph 944-825-00-1 as follows:

944-825-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
Acquisition Costs	Amended	2010-26	10/13/2010

The amendments in this Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information and Basis for Conclusions

BC2. As a result of the diversity in practice relating to the interpretation of which costs qualify as acquisition costs within the insurance industry, certain stakeholders initially raised the question of whether advertising costs meet the definition of acquisition costs. However, interpretation of the phrase *vary with and are primarily related to* in the definition of acquisition costs raised broader conceptual issues that also applied to other types of costs; therefore, the Task Force decided that the resolution of this Issue should not be limited to advertising costs.

BC3. In discussing this Issue, some Task Force members indicated that only costs that are both direct and incremental and are incurred as a result of acquiring new or renewal contracts should be considered acquisition costs, while other members preferred expensing all contract acquisition costs. Other Task Force members favored aligning the nature of capitalizable costs in contract acquisition activities with those capitalizable costs of loan origination activities in Topic 310, Receivables. That model encompasses both direct and incremental costs and certain additional direct costs incurred to complete successful contract acquisitions or renewals.

BC4. Some Task Force members noted that the loan origination model does not permit capitalization of costs relating to unsuccessful loan efforts, which, if applied by insurance companies, would result in a significant change from current practice. Other Task Force members questioned the conceptual basis for how costs relating to unsuccessful contract acquisition efforts could be considered to provide a future economic benefit to warrant asset recognition.

BC5. The Task Force concluded that acquisition costs should include only those costs that are directly related to the acquisition or renewal of insurance contracts by applying a model similar to the accounting for loan origination costs in Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs. The Task Force also concluded that costs related to unsuccessful contract efforts should be expensed as incurred.

BC6. At the November 19, 2009 EITF meeting, the Task Force reached a consensus-for-exposure on EITF Issue No. 09-G, “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts.” A proposed Accounting Standards Update (proposed Update) was issued on December 17, 2009, with a comment period that ended on February 12, 2010. Twenty comment letters were received on the proposed Update. Additionally, a Working Group was formed to assist the staff in advising the Task Force on the effective date and transition questions. The Working Group included preparers and auditors of life insurance and property and casualty insurance entities, a life insurance industry association representative, and an observer from the Securities and Exchange Commission. Several Task Force members also observed and participated in the meeting. The Working Group met on May 13, 2010.

BC7. During the deliberations of this Issue, the Task Force discussed how an insurance entity should incorporate future cash flows attributable to advertising costs in its premium deficiency analysis and assessment of the realizability of direct-response advertising. The Task Force affirmed its consensus-for-exposure that advertising costs should be capitalized only if the criteria for capitalizing such costs in accordance with the direct-response advertising guidance in Topic 340 were met. The Task Force concluded that after those criteria are met, the direct-response advertising costs should be included as deferred acquisition costs for classification, subsequent measurement, and premium deficiency purposes in accordance with Topic 944.

BC8. At the July 29, 2010 EITF meeting, the Task Force was asked to clarify its views on the proposed changes to the deferred acquisition costs model because some of the wording used in the consensus-for-exposure varied from the wording that currently exists in the model for loan origination costs in Subtopic 310-20. Some Task Force members stated that the deferred acquisition costs model in the consensus-for-exposure permitted costs such as commissions paid to internal sales agents to be entirely deferrable. Other Task Force members stated that deferring the entire commission was inconsistent with the Task Force’s original intent and that the treatment of commissions should be consistent with the treatment of similar costs under the loan origination cost model. Those Task Force members supported adding language to the amendments in the proposed Update to require incremental direct costs of contract acquisition to be incurred in transactions with independent third parties in order for them to be deferred in their entirety.

BC9. Other Task Force members stated that a commission paid to an individual who is not by law an independent third party, but is independent in most other respects, should be allowed to be deferred in its entirety. Those members discussed whether the right criterion to use was “independent third parties” because for some relationships it may not be clear whether the third party is independent, for example, captive agents. The staff indicated that it would incorporate implementation guidance, similar to the FASB Special Report, *A Guide to Implementation of Statement 91 on Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases,* into the amendments in the final Update to help constituents answer similar types of implementation questions.

BC10. The Task Force tentatively concluded that incremental direct costs of contract acquisition must be incurred in transactions with independent third parties to be deferrable in their entirety and that variable compensation paid to an employee must be considered part of an employee’s overall compensation and only the pro rata portion associated with successful contract acquisitions must be capitalized as a deferred acquisition cost. However, given the changes from the consensus-for-exposure, the Task Force decided not to re-expose the Issue but rather perform an extended fatal-flaw review, including seeking additional input from Working Group members and posting a staff draft of the final Update to the FASB website for comment.

BC11. On August 19, 2010, the staff posted the staff draft to the FASB website. The staff draft did not formally seek comments; however, it welcomed input from interested parties. As a result, 10 comment letters were received. A number of constituents raised concerns with the staff draft, including concerns that the proposed guidance would result in economically similar acquisition costs (for example, commissions) receiving different accounting treatment depending on whether the person performing the acquisition activity was an independent third party or an employee. Concerns also were raised about the operationality of the model and the costs associated with applying it because many insurance agents might not qualify as independent third parties as defined but also are not employees. Others were concerned that the proposal would significantly differ from the direction of the Board’s joint insurance project. In light of those concerns, at the September 16, 2010 meeting, the Task Force decided to reverse its previous tentative decision and reached a final consensus that incremental direct costs of contract acquisition that are incurred in transactions with both independent third parties and employees are deferrable in their entirety if the capitalization criteria are met.

Effective Date and Transition

BC12. The Task Force decided that the amendments in this Update should be effective for fiscal years beginning on or after December 15, 2011. The Task Force decided that early application of the amendments should be permitted.

BC13. As a result of the feedback provided by the Working Group, the Task Force supported a one-year deferral of the effective date from the originally proposed Update. The Task Force concluded that deferring the proposed effective date for one year will provide insurance entities with sufficient time to implement the amendments and to complete any necessary time studies or cost analyses, make requisite system changes, and update their internal control processes to integrate any changes into their preexisting deferred acquisition cost internal controls.

BC14. The Task Force concluded that if, as a result of applying the amendments in this Update, entities are required to capitalize more costs than are being capitalized currently, those entities should not be required to capitalize the additional costs. The Task Force did not believe it would be beneficial for insurers to incur costs to develop new systems to capitalize additional acquisition costs, particularly if they may have to change their accounting as a result of the decisions reached as part of the Board's project on insurance contracts.

BC15. The Task Force decided to require prospective application upon the date of adoption and concluded that retrospective application also is permitted, but not required. The Task Force also concluded that if an entity early adopts the amendments, it must do so as of the beginning of the entity's annual reporting period. In the Task Force's view, this would enhance comparability between entities that choose to early adopt.

BC16. The Task Force discussed whether a practical expedient could be developed to allow more entities to retrospectively adopt the amendments (for example, using the current-year data and applying those data to prior years for which historical information was not available). Ultimately, the Task Force decided against providing a practical expedient. However, Task Force members stated that an entity may need to make reasonable estimates of the effect on prior years on the basis of its specific circumstances in order to adopt the amendments retrospectively. In electing retrospective application, the Task Force did not believe that an entity is necessarily expected to reperform its detailed capitalization, amortization, and premium deficiency calculations for every prior year if it has ways to reasonably estimate those amounts in accordance with Subtopic 250-10, Accounting Changes and Error Corrections—Overall.

BC17. The Task Force decided to require certain transition disclosures so that users may better understand the effect of adopting the amendments when an entity adopts those amendments prospectively. The Task Force concluded that if an entity chooses to apply the amendments prospectively, the entity will be required to disclose one of the following disclosures instead of the disclosures required by paragraph 250-10-50-1(b)(2) in the period of adoption:

i. The amount of acquisition costs that would have been capitalized during the corresponding period immediately preceding adoption as if the guidance in [paragraph 944-30-25-1A] had been applied during that period compared with the amount previously capitalized during that period

ii. The amount of acquisition costs capitalized during the period of adoption compared with the amount of acquisition costs that would have been capitalized during the period if the entity's previous policy had been applied during that period. [paragraph 944-10-65-1(a)(1)]

BC18. The Task Force also concluded that if an entity chooses to apply the guidance retrospectively, the entity will not be required to disclose the effect of the change in the current period as required by paragraph 250-10-50-1(b)(2). However, the other disclosures required by paragraphs 250-10-50-1 through 50-3 will be required under both prospective and retrospective application.

Benefits and Costs

BC19. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC20. The Task Force anticipates that entities will incur incremental costs to implement the amendments in this Update. The most significant incremental costs are expected to be associated with allocating costs between successful efforts and unsuccessful efforts if entities had not previously performed such an analysis or do not currently capture information in that manner. However, the Task Force believes that the benefits to financial reporting, such as a reduction in the diversity in practice in the types of costs capitalized and the elimination of costs that have been capitalized relating to unsuccessful efforts, are in excess of costs to implement the amendments.

BC21. In deliberating this Issue, the Task Force also considered the tentative conclusions reached by the Boards as part of their joint project on insurance contracts. Specifically, the Task Force considered that the guidance from that project, once finalized, is not currently expected to be effective before 2014. As such, the Task Force concluded that by clarifying the acquisition costs that can be deferred now, the amendments in this Update improve current GAAP by providing a clearer definition of a qualifying capitalizable acquisition cost. The Task Force believes this clarified definition will limit the significant diversity in practice that has developed in this area, particularly as it relates to the capitalization of costs related to unsuccessful acquisition efforts, and that the benefits of this Update justify the costs of implementing the requirements.

Amendments to the XBRL Taxonomy

The following elements or modifications to existing elements are proposed additions to the XBRL U.S. GAAP Financial Reporting Taxonomy. They reflect the amendments to the disclosure and presentation requirements of the Accounting Standards Codification and would be used in association (tagged) with the appropriate reported values in the SEC filer XBRL exhibit. Elements that currently exist in the 2009 Taxonomy are marked with an asterisk* and have been **bolded**. If an existing element was modified, it has been marked to reflect any changes.

Individuals and organizations commenting on the amendments in this proposed Update should consider the usefulness, appropriateness, and completeness of these elements for entities required to include an XBRL exhibit with their SEC filings. Respondents also should consider the context of the elements in the current XBRL U.S. GAAP Financial Reporting Taxonomy.

Standard Label†	**Definition**	**Codification Reference**
Type of Deferred Policy Acquisition Costs	Describes the type of costs that are included as deferred policy acquisition costs. Acquisition costs are related directly to the successful acquisition of new and renewal insurance contracts.	944-30-50-1(a) 944-30-55-1 944-10-20
Deferred Policy Acquisition Costs Disclosure*	Describes the nature, type, and amount of capitalized costs ~~incurred~~ related directly to ~~write~~ writing or ~~acquire~~ acquiring insurance contracts, the basis for and methodology for capitalizing such costs, the accounting for such deferred acquisition costs (DAC) when modifications or internal replacements of related insurance contracts occur and the effect on results of operations, and the methodology and amount of amortization.	944-30-50-1 944-210-S99-1 944-30-50-4

†The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.

Standard Label[†]	Definition	Codification Reference
Deferred Policy Acquisition Costs Net*	The unamortized portion as of the balance sheet date of capitalized acquisition costs ~~that vary with and are primarily~~ that are related directly to the successful acquisition of new and renewal insurance contracts ~~and coverages.~~	944-210-S99-1 944-30-45-1 944-30-55-1
Nature of Deferred Policy Acquisition Costs*	Describes the nature of costs ~~incurred in~~ related directly to the successful acquisition of new and renewal insurance contracts~~,~~ ~~including those costs that vary with and are primarily related to the acquisition of new contracts (for example, agent and broker commissions, certain underwriting and policy issue costs, and medical and inspection fees)~~. Capitalized acquisition costs include (a) incremental direct costs of contract acquisition; (b) the portion of the employee's total compensation and payroll-related fringe benefits related directly to time spent performing any of the following acquisition activities for a contract that actually has been acquired: (1) underwriting, (2) policy issuance and processing, (3) medical and inspection, (4) Sales force contract selling; (c) other costs related directly to the insurer's activities in (b) that would not have been incurred by the insurance entity had the acquisition contract transaction(s) not occurred; and (d) advertising costs that meet capitalization criteria.	944-210-S99-1 944-30-55-1 944-30-50-1(a) 944-30-25-1A
Capitalization of Deferred Policy Acquisition Costs, Policy*	Describes an insurance entity's accounting policy for deferred policy acquisition costs, including the nature, type, and amount of capitalized costs incurred to write or acquire insurance contracts, and the	235-10-50-3 944-30-50-1

Standard Label†	Definition	Codification Reference
	basis for and methodologies applied in capitalizing and amortizing such costs.	
Deferred Policy Acquisition Costs [Text Block]*	This element may be used as a single block of text to encapsulate the entire disclosure, including data and tables, pertaining to the nature, type, and amount of capitalized costs incurred to write or acquire insurance contracts, the basis for and methodology for capitalizing such costs, the accounting for such deferred acquisition costs (DAC) when modifications or internal replacements of related insurance contracts occur and the effect on results of operations, and the methodology and amount of amortization.	944-30-50-1 944-210-S99-1 944-30-50-4
Deferred Policy Acquisition Costs and Present Value of Future Profits, Disclosure*	Describes the nature, type, and amount of costs ~~incurred in~~ related directly to the successful acquisition of new and renewal insurance contracts~~, including those costs that vary with and are primarily related to the acquisition of new contracts (for example, agent and broker commissions, certain underwriting and policy issue costs, and medical and inspection fees),~~ and in connection with the purchase of a life insurance company, describes the nature and amounts of the present value of future profits (PVFP) of estimated net cash flows embedded in the existing long-duration contracts of the acquired entity, reconciles the carrying value from the beginning to the end of the period, and provides other information pertinent to an understanding of PVFP, which is also known as Value of Business	944-30-50-1(a) 944-20-S99-2

Standard Label†	Definition	Codification Reference
	Acquired, or VOBA.	
Deferred Policy Acquisition Costs and Present Value of Future Profits, Additions*	Additions during the period in (a) capitalized policy acquisition costs ~~that vary with and are primarily related to the acquisition of new and renewal insurance contracts and coverages,~~ and (b) capitalized present value of future profits (also known as ~~value of business acquired~~PVFP).	944-20-S99-2(2)
Supplemental Information for Property, Casualty Insurance Underwriters, Deferred Policy Acquisition Costs*	Amount of deferred policy acquisition cost related to property-casualty insurance policy written. ~~Policy acquisition costs are costs that vary with and are primarily related to the acquisition and renewal of insurance contracts during the period (for example, commissions, salaries of underwriting personnel, inspection fees).~~	944-235-S99-3
Deferred Policy Acquisition Costs and Present Value of Future Profits*	The sum of the unamortized portion as of the balance sheet date of (a) capitalized policy acquisition costs ~~that vary with and are primarily related to the acquisition of new and renewal insurance contracts and coverages,~~ and (b) capitalized present value of the future profits (also known as ~~value of business acquired~~PVFP).	944-20-S99-2(2) 944-210-S99-1 944-30-50-1(a)
Supplemental Information for Property, Casualty Insurance Underwriters, Amortization of Deferred Policy Acquisition Costs*	Amount of amortization expense on deferred policy acquisition cost. ~~Deferred policy acquisition costs are costs that vary with and are primarily related to the acquisition or renewal of insurance contracts during the period (for example, commissions, salaries of underwriting personnel, inspection fees).~~	944-235-S99-3