

## Heads Up

### In This Issue:

- Background
- Summary of Key Changes
- Effective Date and Transition
- Appendix — Frequently Asked Questions About the ASU

## Implementation Issues Related to FASB's Guidance on Deferred Acquisition Costs

by Joe DiLeo, Matt Frazee, Rick Sojkowski, and Don Schwegman, Deloitte & Touche LLP

Issued in October 2010, FASB Accounting Standards Update No. 2010-26, *Accounting for Costs Associated With Acquiring or Renewing Insurance Contracts*, amends the guidance for insurance entities that apply the industry-specific guidance in ASC 944-30,<sup>1</sup> which requires deferral and subsequent amortization of certain costs incurred during the acquisition of new or renewal insurance contracts. These costs are commonly referred to as deferred acquisition costs (DAC).

This *Heads Up* is being issued in response to a number of questions that have arisen regarding implementation of ASU 2010-26. The body of this publication contains background information as well as an overview of the ASU's amendments. The [appendix](#) consists of Q&As containing Deloitte's interpretive guidance on some of the implementation issues associated with the ASU.

### Background

Before the issuance of the ASU, ASC 944-30-20 defined acquisition costs as follows:

Costs incurred in the acquisition of new and renewal insurance contracts. Acquisition costs include those costs that **vary with and are primarily related to** the acquisition of insurance contracts. [Emphasis added]

In addition, ASC 944-30-55-1 gave several examples of acquisition costs that meet this definition, including agent and broker commissions, salaries of certain employees involved in the underwriting and policy issuance functions, and medical and inspection fees. However, the definition itself was very broad and led to diversity in practice. The ASU's objective is to standardize the definition of DAC and minimize diversity in the types of costs that insurance entities defer.

**Editor's Note:** The revised DAC guidance establishes a higher threshold at which costs meet eligibility for deferral and therefore will generally result in fewer cost deferrals than in the past.

### Summary of Key Changes

ASU 2010-26 allows for the capitalization of the following costs that are incurred in the **successful** acquisition of new and renewal insurance contracts:

- Incremental direct costs of contract acquisition, which are "costs that result directly from and are essential to" the acquisition of the contract and that the entity would not have incurred had that contract transaction not occurred (e.g., commissions to third parties or employees).

<sup>1</sup> For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

- Certain costs that are directly related to the following acquisition activities that the insurer performs for the contract:
  - Underwriting.
  - Policy issuance and processing.
  - Medical and inspection.
  - Sales force contract selling.

The ASU states that costs related to such activities include (1) “only the portion of an employee’s total compensation . . . and payroll-related fringe benefits related directly to time spent performing those activities for actual acquired contracts” (i.e., “successful efforts”) and (2) “other costs related directly to those activities that would not have been incurred if the contract had not been acquired.”

**Editor’s Note:** In their deliberations, the EITF and FASB questioned whether deferred costs related to unsuccessful efforts would meet the definition of an asset under the conceptual framework. They decided that such costs for unsuccessful efforts did not meet the definition of an asset and analogized to the ASC 310-20 capitalization framework related to loan origination costs.

The ASU goes on to say that “advertising costs should be included in [DAC] only if the capitalization criteria” for direct-response advertising in ASC 340-20 (formerly SOP 93-7<sup>2</sup>) are met. Direct-response advertising costs capitalized in DAC will be subject to the guidance in ASC 944 on subsequent measurement and impairment (i.e., amortization and premium deficiency).

## Effective Date and Transition

ASU 2010-26 is effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2011; however, early application is permitted. The ASU allows for either prospective application or retrospective application to all prior periods. However, an entity must elect and adopt the guidance at the beginning of its fiscal year.

<sup>2</sup> AICPA Statement of Position 93-7, *Reporting on Advertising Costs*.

## Appendix — Frequently Asked Questions About the ASU

### 1. What entities are within the scope of ASU 2010-26?

ASU 2010-26 amends ASC 944's guidance on acquisition costs. Therefore, the ASU applies to insurance entities that are within ASC 944's scope (the specific entities to which ASC 944 applies are listed in ASC 944-10-15-2).

### 2. What types of acquisition costs are deferrable under ASU 2010-26?

The ASU notes four categories of costs that are deferrable if they meet the definition of "acquisition costs" in the Codification Master Glossary. Previously, the Master Glossary had defined acquisition costs as follows:

Costs incurred in the acquisition of new and renewal insurance contracts. Acquisition costs include those costs that vary with and are primarily related to the acquisition of insurance contracts.

The ASU amends this definition, changing it to "[c]osts that are related directly to the successful acquisition of new or renewal insurance contracts" (emphasis added).

The four categories of costs that meet this revised definition in ASC 944-30-25-1A (added by the ASU) are as follows:

- i. "Incremental direct costs of contract acquisition." The ASU adds this term to the Codification Master Glossary, defining it as follows:

A cost to acquire an insurance contract that has both of the following characteristics:

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

The ASU also amends ASC 944-30-55-1 to give the following two examples of these costs:

- a. An agent or broker commission or bonus for successful contract acquisition or acquisitions. . . .
- c. Medical and inspection fees for successful contract acquisition or acquisitions.

See [Question 3](#) for clarification of the "incremental direct" portion of this term.

- ii. 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."

These costs represent compensation costs above and beyond those associated with the acquisition of a specific contract. The implementation guidance in ASC 944-30-55-1C (added by the ASU) gives additional examples of payroll-related fringe benefits that would be considered under this guidance:

- 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.

- iii. "Other costs related directly to the insurer's acquisition activities . . . that would not have been incurred by the insurance entity" had the contract not been acquired.

The implementation guidance in ASC 944-30-55-1A (added by the ASU) gives the following examples of such costs:

- 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.

To be considered for deferral, such costs must be limited to the amounts related to the successful acquisition of an insurance contract.

- iv. "Advertising costs that meet the capitalization criteria in [ASC] 340-20-25-4."

The ASU does not change the criteria that must be met for direct-response advertising to be deferrable (i.e., the deferral criteria in ASC 340-20-25-4). However, as discussed in [Question 13](#), the ASU revises the subsequent accounting for these costs. Under the ASU, once these costs are deferred, they should be accounted for in a manner consistent with the accounting for other DAC balances for amortization and premium deficiency testing under the existing DAC accounting guidance.

### 3. What is meant by the term "incremental direct"?

As noted above, the ASU states that a cost to acquire an insurance contract that has both of the following characteristics can be deferred in its entirety:

- i. It results directly from, and is essential to, the contract transaction(s).

Costs that are directly related and essential to the contract transaction generally arise from activities that are specifically connected to issuing a contract (i.e., activities that specifically "touch" a successful contract). Such costs include commissions for sales activities or costs related to underwriting activities (e.g., a medical inspection for a successful contract). In contrast to the guidance on loan origination fees in ASC 310-20-20, under the ASU, 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.

Conversely, ASC 944-720-55-2 (added by the ASU) gives the following examples of costs that would not be considered "direct" and would therefore be expensed as incurred:

- 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.

- ii. It would not have been incurred by the insurance entity had the contract transaction(s) not occurred.

Costs also must be incremental to the successful contract acquisition (i.e., they would not have occurred without the issuance of the contract). ASC 944-30-55-1B (added by the ASU) states that the costs of software dedicated to contract acquisition are not eligible for deferral because they are not considered incremental.

### 4. Are premium taxes deferrable?

Although not specifically addressed in ASU 2010-26, premium taxes are considered incremental direct costs of contract acquisition and are therefore deferrable. In assessing whether to defer other premium-related items, an entity will need to consider the specific facts and circumstances, including whether the costs are incremental and directly related to the **issuance or acquisition** of an insurance contract and are not the result of ongoing activity associated with the insurance contract.

### 5. Does the ASU prescribe how successful efforts are determined?

No. However, entities should consider the following guidance on this topic in ASC 944-30-55-1E (added by the ASU):

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.

Because there is no single way to establish "successful efforts," such a determination may vary from entity to entity or among product lines within a single entity. For example, an entity may determine successful efforts for personal-line auto policies on the basis of the percentage of policy applications that were ultimately issued. Another example is an entity that uses time studies to determine successful-effort levels for its specialty business for which processes such as underwriting depend on the specific level of coverage in the policy.

An entity should clearly document its rationale for determining successful efforts, including the periods for which an appropriate level of detail is available, and should ensure that its approach can be applied in future periods (and retrospectively, if applicable). Ultimately, assumptions related to successful efforts should reflect an entity's experience and must be evaluated periodically to ensure that they remain appropriate. In addition, an entity needs to establish processes and controls for collecting data to support the assumptions made. The objective of such processes and controls is to ensure that the assumptions can be both verified and replicated in each reporting period.

## **6. What is the meaning of the term "idle time," as used in ASU 2010-26?**

ASC 944-30-55-1E (added by the ASU) indicates that an employee's "idle time" should be excluded from the determination of time spent on successful efforts. Although the ASU does not specifically define "idle time," we believe that the following definition of this term in ASC 310-20-20 is appropriate by analogy:

Idle time represents the time that a lender's employees are not actively involved in performing origination activities for specific loans. Idle time can be caused by many factors, including lack of work, delays in work flow, and equipment failure. Idle time can be measured through the establishment of standard costs, time studies, ratios of productive and nonproductive time, and other methods.

## **7. How would vacation or paid time off be considered for purposes of deferral?**

Vacation time would be considered idle time in the determination of the time spent on successful acquisition of insurance contracts. However, an entity would consider the cost of vacations or compensated absences as similar to a payroll-related fringe benefit in determining deferrable costs.

## **8. Are the costs of sales-based rewards deferrable?**

In most cases, a cash bonus, when paid to a person performing activities essential to the successful acquisition of an insurance contract on the basis of a volume threshold, would be treated similarly to a sales commission. That is, such a cash bonus would be deferred as an incremental direct cost of a contract acquisition under ASC 944-30-25-1A(a) (added by the ASU).

Whether to defer other sales-based rewards, such as an all-expense-paid trip to a sales convention, depends on the facts and circumstances associated with the award. Like other compensation costs, such a reward must meet the definition of an incremental direct cost to be considered deferrable. For example, if an agent is being sent to a sales convention as a result of meeting a predetermined sales threshold, the costs of sending the agent (airfare, meals, hotel, etc.) would be deferrable because they would be considered "incremental direct." However, the overhead costs associated with hosting the sales convention (e.g., reserving the facility, speaker costs, and travel and lodging costs for an entity's executives and administrative support) would not be considered incremental direct costs and would therefore not be deferrable. In addition, if the sales convention is open to all agents, or even select agents, but is not based on a predetermined sales threshold, the costs would not be deferrable. For example, the objective of a convention intended for a general audience typically might be to promote a new product or to train sales personnel on future sales techniques. Since the costs incurred for such a convention are not costs associated with a successfully issued contract, they would not qualify for deferral.

## **9. Do all commissions paid to employees that are based on contracts acquired qualify for deferral?**

Not necessarily. To be deferrable, commissions would need to be considered incremental direct costs associated with the acquisition of an insurance contract. A commission that is payable to an employee who is directly involved in selling an insurance contract is the clearest example of a commission that would be a deferrable cost. However, in many cases, the manager of a sales team receives a bonus or overriding commission on the basis of the level of sales of the department. While this type of commission is considered "incremental" (since the cost would not have been incurred without a sale), an entity must consider whether the involvement of, and activities performed by, the sales manager are directly related and essential to the sale of the insurance contract. As discussed in [Question 3](#), to be considered directly related and essential, costs must arise from activities that are directly connected to a successful contract (i.e., those that "touch" a successful contract). Because assessing whether the manager's involvement is direct and essential to the issuance of a contract involves judgment, an entity would need to document its rationale for the basis used to determine the types and levels of activity that meet the criteria for deferral.

## **10. If compensation for an employee traditionally paid by salary or hourly wage is switched wholly or partially to commissions paid for contracts actually acquired, would all such costs be deferrable?**

Not necessarily. An entity would need to look at the variable portion of the compensation arrangement to determine whether the cost can be considered "incremental direct." Like the commissions described in [Question 9](#), the variable compensation would be considered "incremental"; however, an entity would need to further evaluate these costs to determine whether the involvement and activities performed are directly related and essential to the sale of the insurance contract. If these two criteria are met, the variable compensation would be deferrable in its entirety.

Alternatively, the fixed portion of the compensation arrangement would not meet the incremental criteria. In such circumstances, the entity would need to evaluate this portion further to determine the amount of compensation (excluding any compensation that is capitalized as incremental direct costs of contract acquisition, as discussed above) and payroll-related fringe benefits that is related directly to time spent performing acquisition activities for contracts that actually have been acquired. This determination is a two-step process:

- Determine the portion of the employee’s time spent performing acquisition activities.
- Determine the portion of the employee’s time spent in acquisition activities attributable to successful efforts (i.e., contracts actually acquired).

### **Example**

In addition to a salary, an employee performing activities that are directly related to the sales process is paid a commission for successful sales of insurance contracts. In 201X, the employee earned a salary of \$50,000 and an additional commission of \$100,000 for selling 100 insurance contracts. The employee spent about 50 percent of his or her time on underwriting and other qualifying activities and about 50 percent of this time resulted in successful contract acquisition(s). To determine the amount of costs that would be deferrable, the entity would evaluate the components of the costs separately as follows:

|                |  |
|----------------|--|
| Commission     | \$ 100,000 (incremental direct based on volume of business sold) |
| Fixed          | <u>\$ 12,500</u> (50% × 50% × \$50,000)                          |
| Total deferred | \$ 112,500   |

In this example, the portion of the fixed salary to be deferred is first allocated to qualifying activities and then subsequently allocated to time spent on successful efforts.

### **11. Are the employee payroll-related costs of an entity’s call center deferrable under ASU 2010-26?**

It depends. The following are two examples in which the cost of a call center could be deferrable:

First, if a call center has been established to meet the demands from potential customers as they respond to a specific (direct-response) advertising campaign, the costs may be deferrable as direct advertising costs. An entity should consider the guidance in ASC 340-20 to determine whether these costs meet (1) the definition of the payroll and payroll-related costs of employees directly involved in advertising activities (see ASC 340-20-30-2) and (2) the two conditions in ASC 340-20-25-4 — that is, the costs are primarily related to advertising to “elicit sales to customers who could be shown to have responded specifically to the advertising” and it is probable that the costs will result in a future benefit.

Second, under ASC 944-30-25-1A, an entity may be able to defer the costs as the payroll and payroll-related activities of employees directly involved in the acquisition of a contract if the activity of the call center constitutes a function critical to the issuance of a policy, such as sales efforts, policy issuances, or processing costs. For the costs to qualify for deferral, the activities of the call center would need to be linked to the acquisition, and not ongoing service, of an insurance contract (the entity would also need to document the basis and evidence supporting the conclusion that they are linked). Such costs would be subject to the successful-efforts criteria for deferral.

## **Advertising Costs**

### **12. How does ASU 2010-26 affect the eligibility of costs for deferral as direct advertising costs?**

ASU 2010-26 does not change the determination of which advertising costs qualify for deferral under ASC 340-20. Specifically, the ASU states:

Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in [ASC 340-20] are met. . . . If the capitalization criteria in [ASC 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 [ASC 720-35].

The requirements in ASC 340-20-30-2 regarding the eligibility of direct advertising costs for capitalization strongly align with the deferral requirements under ASU 2010-26. ASC 340-20-30-2 states that only the following direct advertising costs are eligible for deferral:

- a. Incremental direct costs of direct-response advertising incurred in transactions with independent third parties. Examples of those costs may include the following:
  1. Costs of idea development
  2. Writing advertising copy
  3. Artwork
  4. Printing

5. Magazine space
  6. Mailing.
- b. Payroll and payroll-related costs for the direct-response advertising activities of employees who are directly associated with and devote time to the advertising reported as assets. Examples of those activities may include the following:
1. Idea development
  2. Writing advertising copy
  3. Artwork
  4. Printing
  5. Mailing.

The costs directly related to those advertising activities shall include only that portion of employees' total compensation and payroll-related fringe benefits directly related to time spent performing such activities.

To qualify for deferral, the direct advertising costs must then meet the following two criteria in ASC 340-20-25-4:

- The "primary purpose of the advertising is to elicit sales to customers who could be shown to have responded specifically to the advertising."

ASC 340-20-25-6 indicates that for this criterion to be met, "there must be a means of documenting that response, including a record that can identify the name of the customer and the advertising that elicited the direct response." Examples of such documentation may include (1) prenumbered order forms that link a customer to a given ad campaign, (2) a log indicating calls received in response to a number given in an advertisement, (3) a code to enter in an online response indicating the ad responded to, and (4) a file that indicates a customer name and advertising campaign.

- The "direct-response advertising results in probable future benefits."

ASC 340-20-25-9 contains the following discussion regarding the determination of whether this criterion is met:

Demonstrating that direct-response advertising will result in future benefits requires persuasive evidence that its effects will be similar to the effects of responses to past direct-response advertising activities of the entity that resulted in future benefits. Such evidence shall include verifiable historical patterns of results for the entity. Attributes to consider in determining whether the responses will be similar include the following:

- a. The demographics of the audience
- b. The method of advertising
- c. The product
- d. The economic conditions.

Further, ASC 340-20-25-10 states, in part:

Industry statistics would not be considered objective evidence that direct-response advertising will result in future benefits in the absence of the specific entity's operating history. If the entity does not have an operating history for a particular product or service but does have operating histories for other new products or services, statistics for the other products or services may be used if it can be demonstrated that the statistics for the other products or services are likely to be highly correlated to the statistics of the particular product or service being evaluated.

In addition, the SEC staff has expressed its views on direct-response advertising. The staff believes that the exception in the advertising guidance is a narrow exception to the general rule of expensing advertising costs and applies only to situations in which the response to the advertising is a direct revenue-generating response. It does not apply to advertising that results in "leads" or sales opportunities that are likely to produce revenues.

The staff gives the example of using an "800" number to advertise for magazine subscriptions. Respondents to the ad typically order the magazine subscription by calling the advertised number. No further selling effort is required. Provided that the other requirements are met, those advertising activities would qualify as direct-response advertising.

However, if respondents to an ad using an "800" number sign up for a visit from a sales representative, the advertising would not qualify as direct-response advertising. In this case, additional sales efforts, namely the visit by the salesperson, are needed to secure the order; thus, the advertising only indirectly leads to the revenue-generating transaction.

Entities should consider both the guidance in ASC 340-20 and the SEC staff's views to determine whether the extent of additional effort needed to issue an insurance policy will preclude deferral of direct-response advertising costs.

### **13. How should an entity account for costs that meet the deferral criteria in ASC 340-20?**

Direct-response advertising costs that meet the criteria for deferral in ASC 340-20 should be included in DAC for classification, subsequent measurement, and premium deficiency purposes in accordance with ASC 944 (amended by ASU 2010-26). Including these costs in the DAC balance could affect the period over which the costs are deferred and the rate and basis for amortization. In addition, these costs must be included in an entity's premium deficiency analysis.

## **Transition Implications**

### **14. When must ASU 2010-26 be adopted?**

ASU 2010-26 (as updated in ASC 944-10-65-1) is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

### **15. Is retrospective adoption required?**

No. The transition guidance in ASC 944-10-65-1 permits entities to adopt the ASU either prospectively or retrospectively. However, entities that elect prospective adoption must disclose either of the following:

- The "amount of acquisition costs that would have been capitalized during the corresponding period immediately preceding adoption as if the guidance . . . had been applied during that period compared with the amount previously capitalized during that period."
- 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."

In addition, entities that elect to retrospectively adopt the guidance in the ASU must do so for all periods presented, as described in ASC 250-10-45-6 and 45-7. (SEC registrants should also refer to [Question 17](#).)

### **16. May an entity early adopt the provisions of ASU 2010-26?**

Yes. ASC 944-10-65-1(b) indicates that an entity is permitted to early adopt the ASU as long as it does so as of the beginning of an annual period. For example, a calendar-year-end entity could early adopt the standard as of the beginning of the quarter ending March 31, 2011.

### **17. What requirements must an entity meet to adopt the provisions of ASU 2010-26 retrospectively?**

ASC 944-10-65-1 refers to ASC 250-10-45-6 and 45-7 for guidance on this matter. These paragraphs should be considered in conjunction with ASC 250-10-45-5, which requires an entity that elects retrospective adoption to:

- Reflect, "in the carrying amounts of assets and liabilities as of the beginning of the first period presented," the cumulative effect of the change on periods before the periods presented.
- Make an offsetting adjustment, if any, "to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period."
- Adjust the "[f]inancial statements for each individual prior period presented . . . to reflect the period-specific effects of applying the new accounting principle."

SEC registrants, in addition to each of the three years of financial statements presented in the Form 10-K, would also need to retrospectively adjust the two years preceding the earliest year presented in the financial statements to reflect the adoption of the ASU in the five-year table (i.e., selected financial data required by SEC Regulation S-K, Item 301). Section 1610 of the SEC Financial Reporting Manual (FRM) (updated September 30, 2010) states, in part:

The staff generally expects all periods presented in selected financial data to be presented on a basis consistent with the annual financial statements. For example, if a company adopts a new accounting standard that requires retrospective application . . . , the staff will expect the years prior to the annual financial statements — generally years 4 and 5 — to be presented on the same basis as the annual financial statements

### **18. What should an entity consider in determining the information it will need to apply the provisions from ASU 2010-26 retrospectively?**

ASC 250-10-45-9 states that retrospective adoption would be "deemed impracticable" in the following circumstances:

- a. After making every reasonable effort to do so, the entity is unable to apply the requirement.
- b. Retrospective application requires assumptions about management's intent in a prior period that cannot be independently substantiated.



- c. Retrospective application requires significant estimates of amounts, and it is impossible to distinguish objectively information about those estimates that both:
  1. Provides evidence of circumstances that existed on the date(s) at which those amounts would be recognized, measured, or disclosed under retrospective application
  2. Would have been available when the financial statements for that prior period were issued.

In addition, ASC 250-10-45-10 states the following:

This Subtopic requires a determination of whether information currently available to develop significant estimates would have been available when the affected transactions or events would have been recognized in the financial statements. **However, it is not necessary to maintain documentation from the time that an affected transaction or event would have been recognized to determine whether information to develop the estimates would have been available at that time.** [Emphasis added]

Because the amortization period for a number of long-lived products, primarily life insurance contracts, can be 20 or more years, it is assumed that detailed data and documentation for all conclusions may not be available for all years for which DAC remain. Entities will therefore need to consider the available data and whether they can make the necessary assumptions on the basis of these data. In paragraph BC16 of the Basis for Conclusions of ASU 2010-26, the EITF considered whether it was appropriate to provide for a practical expedient that would allow more entities to elect retrospective adoption (e.g., using current-year data and assumptions and retrospectively applying these data to data for prior years). Paragraph B16 outlines the EITF's decision as follows:

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 [ASC 250-10].

**19. Upon adopting ASU 2010-26, would an entity that had previously deferred only certain types of acquisition costs be required to defer additional costs?**

No. ASC 944-10-65-1(d) states:

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.

However, an entity that was previously deferring costs that meet the criteria in ASU 2010-26 would be required to continue deferring these costs.

**20. Would an SEC registrant that files a registration statement in a quarter after which it had retrospectively adopted the provisions of ASU 2010-26 be required to retrospectively adjust (i.e., recast) its most recently filed annual financial statements before filing the registration statement?**

Yes. A registrant is required to recast its previously issued annual financial statements when it files a **new**<sup>3</sup> registration statement **after** it has filed a Form 10-Q that reports the effects of the adoption of the new accounting principle and the effect on the previously issued financial statements is material.

Section 13100 of the FRM states, in part, the following:

Certain events that occur after the end of a fiscal year will require retrospective revision of that year's financial statements (the "pre-event financial statements") if they are reissued after financial statements covering the period during which the event occurred have been filed. Such events include reporting a discontinued operation, a change in reportable segments, **or a change in accounting principle for which retrospective application is either required or elected.** [Emphasis added]

This recast typically is performed on Form 8-K,<sup>4</sup> which incorporates the portions of the Form 10-K that have been affected — typically the business section, MD&A, and the financial statements and schedules. Registrants are not required to file this recast of financial statements and other information during the year of adoption unless a registration statement is filed that would include or incorporate by reference the previous year's Form 10-K.

Companies should be aware of, and assess, the impact of these reporting requirements (1) in anticipation of any planned capital transactions during 2012 (or 2011 for entities that early adopt in the first quarter) and (2) on any potential registration of products with the SEC that will incorporate previously issued Form 10-Ks.

<sup>3</sup> For currently effective registration statements (e.g., an existing Form S-3 that is already effective but upon which a registrant wishes to draw down or issue securities), a registrant has no specific obligation to update the prospectus except as stipulated by Section 10(a)(3) of the Securities Act of 1933 regarding the age of information in the prospectus and SEC Regulation S-K, Item 512(a), with respect to a fundamental change. Management, in consultation with legal counsel, should determine whether the retrospective application of the change (i.e., a change in accounting principle, a change in reporting entity, or another retrospective change) constitutes a fundamental change. In addition, as indicated in the note to Section 13100 of the FRM, in connection with Form S-8, a registrant should determine whether there have been "material changes in the registrant's affairs" and the registrant's auditor will need to determine "if it will issue a consent to the use of its report in a Form S-8 if there has been a change in the financial statements in a subsequent Form 10-Q where the financial statements in the Form 10-K have not been [recast]."

<sup>4</sup> It is inappropriate for a registrant to file recast financial statements on an amended Form 10-K because the previously issued financial statements were not misstated. However, the SEC staff would not object to also including the effects of retrospective changes on Form 10-K/A when it is filed to correct a material error.

## Subscriptions

If you wish to receive *Heads Up* and other accounting publications issued by Deloitte's Accounting Standards and Communications Group, please [register](http://www.deloitte.com/us/subscriptions) at [www.deloitte.com/us/subscriptions](http://www.deloitte.com/us/subscriptions).

## *Dbriefs* for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy & tax.
- Corporate governance.
- Driving enterprise value.
- Financial reporting.
- Financial reporting for taxes.
- Risk intelligence.
- Sustainability.
- Technology.
- Transactions & business events.

*Dbriefs* also provides a convenient and flexible way to earn CPE credit — right at your desk. [Join \*Dbriefs\*](#) to receive notifications about future webcasts at [www.deloitte.com/us/dbriefs](http://www.deloitte.com/us/dbriefs).

Registration is available for this upcoming *Dbriefs* webcast. Use the link below to register:

- [Sustainability Strategy: A New Driver of Innovation and Growth?](#) (May 3, 2 p.m. (EDT)).

## Technical Library: The Deloitte Accounting Research Tool

Deloitte makes available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool, the library includes material from the FASB, the EITF, the AICPA, the PCAOB, the IASB, and the SEC, in addition to Deloitte's own accounting and SEC manuals and other interpretive accounting and SEC guidance.

Updated every business day, Technical Library has an intuitive design and navigation system that, together with its powerful search features, enable users to quickly locate information anytime, from any computer. In addition, Technical Library subscribers receive *Technically Speaking*, the weekly publication that highlights recent additions to the library.

For more information, including subscription details and an online demonstration, visit [www.deloitte.com/us/techlibrary](http://www.deloitte.com/us/techlibrary).

*Heads Up* is prepared by the National Office Accounting Standards and Communications Group of Deloitte as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.