

## Interpretation of the Emerging Accounting Issues Working Group

### INT 01-32: EITF 01-10: Accounting for the Impact of the Terrorist Attacks of September 11, 2001

#### GUIDANCE DETERMINED TO BE NO LONGER RELEVANT

##### INT 01-32 Dates Discussed

October 16, 2001; December 10, 2001; March 9, 2003; June 22, 2003; March 10, 2007; June 2, 2007

##### INT 01-32 References

SSAP No. 1—*Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures* (SSAP No. 1)

SSAP No. 5R—*Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5R)

SSAP No. 65—*Property and Casualty Contracts* (SSAP No. 65)

##### INT 01-32 Issue

1. The terrorist attacks of September 11, 2001 (the September 11 events), resulted in a tremendous loss of life and property. Secondly, those events interrupted the business activities of many entities and disrupted the U.S. economy at many levels. In the past, businesses have incurred losses as a result of catastrophes such as earthquakes, hurricanes, and even other terrorist attacks. However, the September 11 events are unprecedented in the United States in terms of the magnitude of the losses incurred and the number of entities affected. In fact, as a direct result of the September 11 events, the U.S. Secretary of Transportation issued a Federal ground stop order that closed the U.S. air travel system for over 24 hours. The Task Force noted that the September 11 events have an effect on many companies' financial statements for the period ended September 30, 2001. Clearly, the importance of the accounting for the impact of those events pales in comparison to the gravity of the events themselves. As a result, the Task Force was initially reluctant to address this Issue. However, the Task Force observed that timely accounting guidance would be helpful to companies in capturing data, planning how to communicate with investors, and so forth. The Task Force also noted that without such guidance, financial statement preparers and auditors would be faced with individually resolving the difficult questions in this Issue. Accordingly, the Task Force concluded that it should expeditiously address and resolve this Issue.

2. The Air Transportation Safety and System Stabilization Act (the Act) was enacted prior to September 30, 2001, in direct response to the September 11 events and the disruption caused by them. The Act provides for:

- a. Compensation to air carriers and victims for direct and incremental losses incurred resulting from the September 11 events,
- b. Loan guarantees provided to air carriers by the U.S. government,
- c. Reimbursement of increases in certain insurance premiums incurred by air carriers and certain other entities, and
- d. Limitations on liabilities incurred or to be incurred by air carriers as a result of the September 11 events.

3. The Act compensates air carriers for direct and incremental losses incurred during the period from September 11, 2001, to December 31, 2001. Each air carrier is entitled to receive the lesser of its direct and incremental losses for the period or its allocation of the aggregate compensation available under the Act. The Act does not specifically define the terms "direct" or "incremental," but states that "the term 'incremental loss' does not include any loss that the President determines would have been incurred if the terrorist attacks on the United States...had not occurred" (Section 107(3)). Initial estimates of an air carrier's losses as a result of the September 11 events are determined by comparing the air carrier's earnings forecast for the period from September 11, 2001, to December 31, 2001, (computed prior to the September 11 events) to its earnings forecast for the same period computed after the September 11 events.

4. This Issue provides accounting and disclosure guidance for losses incurred as a result of the September 11 events and related insurance and other recoveries and federal assistance (in the form of direct compensation available to air carriers under the Act).

5. The accounting issues are:

Issue 1—How losses or costs resulting from the September 11 events should be classified in the statement of operations.

Issue 2(a)—When asset impairment losses resulting from the September 11 events should be recognized.

Issue 2(b)—When liabilities for other losses or costs resulting from the September 11 events should be recognized.

Issue 3—How insurance recoveries of costs and losses incurred as the result of the September 11 events should be classified in the statement of operations and when those recoveries should be recognized.

Issue 4—How federal assistance (in the form of direct compensation received by air carriers under the Act) should be classified in the statement of operations and when that assistance should be recognized.

Issue 5—What disclosures should be made in the footnotes to the financial statements regarding the losses and costs incurred as a result of the September 11 events.

### INT 01-32 Discussion

6. At its December 10, 2001 meeting, the working group reached a consensus to adopt the positions in *EITF 01-10, Accounting for the Impact of the Terrorist Attacks of September 11, 2001* (EITF 01-10) as follows (the working group reached a consensus to the following amendments to paragraphs 6.a. and 6.b. and the subparagraph on Issue 5 in paragraph 7 at its June 22, 2003 meeting).

- a. Issues 1-5 are applicable in the case where an insurer is an *insured* that suffered damages, other than losses as an *insurer*, as a result of the terrorist attacks of September 11;
- b. Issue 5 of the EITF 01-10 is applicable to *insurers* who suffered losses as an insurer; and
- c. If both cases are applicable, disclosure of such should be presented independently.

7. The consensus position of EITF 01-10 is as follows (the response to Issue 5 has been modified to synchronize with statutory accounting terminology):

The Task Force observed that the consensuses reached on this Issue with regard to the classification of losses incurred and related insurance or other recoveries are limited to the September 11 events and should not be applied by analogy in other cases. The Task Force observed that the income statement classification of other catastrophic losses incurred, whether as a result of terrorist attacks or other causes, should be determined after careful consideration of all facts and circumstances and the requirements of Opinion 30. In addition, while the remainder of this Issue prescribes classification in the statement of operations within continuing operations (as opposed to extraordinary classification), that should not be interpreted to preclude costs, losses, and related recoveries from being classified in discontinued operations if the requirements of Opinion 30, paragraphs 13-17, are met.

On Issue 1, the Task Force reached a consensus that losses or costs resulting from the September 11 events should be classified as part of income from continuing operations in the statement of operations. The Task Force observed that if those losses or costs meet the criteria for disclosure of unusual or infrequently occurring items in paragraph 26 of Opinion 30, they should be reported as a separate item in income from continuing operations, either on the face of the statement of operations or in the footnotes to the financial statements. In addition, the disclosures described in paragraph 26 of Opinion 30 should be made.

Task Force members expressed mixed views regarding whether losses or costs incurred as a result of the September 11 events meet the Opinion 30 criteria to be classified as an extraordinary item in the statement of operations. Some Task Force members expressed the view that none of the losses or costs incurred as a result of the September 11 events meet those criteria. Those Task Force members suggested that although the September 11 events were unusual in nature (as described in paragraph 21 of Opinion 30) for many businesses, those events did not meet the infrequency of occurrence criteria (in paragraph 22 of Opinion 30). Those Task Force members noted that terrorist acts have occurred in the U.S. in the past and believe that, unfortunately, they can reasonably be expected to recur in the U.S. in the foreseeable future. They believe that the magnitude of the September 11 events is the only distinguishing factor that might cause one to conclude that certain losses or costs incurred as a result of those events should be classified as an extraordinary item in the statement of operations. However, based on the guidance in Opinion 30, the magnitude of an event has no bearing on whether the related losses or costs are classified as an extraordinary item.

Other Task Force members expressed the view that the magnitude of the September 11 events is an inseparable aspect of the evaluation of whether those events meet the criteria in Opinion 30 to be classified as an extraordinary item. Those Task Force members pointed to a number of facts to support their position that the September 11 events not only meet the unusual nature criteria (in paragraph 21 of Opinion 30) but also meet the infrequency of occurrence criteria (in paragraph 22 of Opinion 30). Those facts include (a) the magnitude of the losses incurred, (b) the number of entities affected, (c) the unprecedented Federal ground stop order that closed the U.S. air travel system for over 24 hours, and (d) the unprecedented cooperative efforts being undertaken by the U.S. and other nations to prevent similar future attacks. As a result of the foregoing considerations, those Task Force members believe that the September 11 events are of a type not reasonably expected to recur in the foreseeable future and that at least some of the losses and costs incurred as a result of those events qualify for classification as an extraordinary item in the statement of operations.

Opinion 30 provides for separate classification of the impact of certain events as extraordinary because the events are so unusual and infrequent that the statement of operations is more meaningful when the complete impact of those events is distinguished

from the rest of the activity reflected in the statement of operations. The Task Force concluded that regardless of whether the September 11 events meet the criteria in Opinion 30 to be considered extraordinary, the effects of those events were so wide-ranging and had such a pervasive impact on U.S. businesses and the U.S. economy that the foregoing communication objectives of Opinion 30 with respect to extraordinary items could not be met. The Task Force agreed that despite the incredible nature of the September 11 events, extraordinary item financial reporting treatment would not be an effective way to communicate the financial effects of those events and, therefore, should not be used in this case. The Task Force noted that it would be impossible to isolate and therefore distinguish (in a consistent way) the effects of the September 11 events in any single line item on companies' financial statements because of the inability to separate losses that are directly attributable to the September 11 events from those that are not. For example, impairment of long-lived assets as a result of the September 11 events would in many cases be impossible to measure separately from impairment due to the general economic slowdown that was generally acknowledged to be under way. (The September 11 events probably contributed to the speed and depth of the economic slowdown, but determining the portion of the slowdown directly attributable to the September 11 events would be extremely subjective and difficult if not impossible.) In addition, the Task Force observed that the most significant financial statement impact of the September 11 events to many companies might be lost or reduced revenues. The measurement of an extraordinary item under Opinion 30 does not reflect any estimate of lost or reduced revenues.

The Task Force noted that its primary objective in addressing this Issue was to provide financial statement users with decision useful information about the financial effects of the September 11 events by providing preparers and auditors with operational guidance that would be straightforward and consistently applied. The Task Force observed that it might have been possible to create operational guidance by limiting the losses or costs classified as extraordinary to those that clearly meet the Opinion 30 criteria for extraordinary classification (that is, those that could be clearly measured and irrefutably attributed to the September 11 events). However, the Task Force agreed that investors and financial statement users would not be well served by separately reporting only that part of the effects of the September 11 events as an extraordinary item. Under that approach, a possibly significant portion of the impact of the September 11 events would be classified within income from continuing operations (that is, the amount presented as an extraordinary item would be incomplete and might be only a small part of the total financial statement impact of the September 11 events). The Task Force noted that financial statement users are interested in understanding the whole impact of the September 11 events on each company and concluded that financial statement users would be better served by not separating a part of that impact and reporting it in a separate line item outside of income from continuing operations. That approach also is consistent with the broader objective of providing financial reports that communicate effectively and clearly.

On Issue 2(a), the Task Force observed that Appendix B of Statement 121 includes a table listing the existing FASB and APB authoritative literature that, in addition to Statement 142, provides guidance relating to impairment of assets and disposal of assets. The Task Force agreed that the guidance in that literature should be used to determine when an asset impairment loss resulting from the September 11 events should be recognized and how that impairment loss should be measured.

On Issue 2(b), the Task Force reached a consensus that liabilities for losses and other costs should be recognized when the recognition criteria in paragraph 63 of Concepts Statement 5 have been met. That is, those liabilities should be recognized when:

- a. The item meets the definition of a liability. Paragraph 35 of Concepts Statement 6 defines liabilities as "probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to

other entities in the future as a result of past transactions or events" (footnote references omitted).

- b. The liability can be measured with sufficient reliability.
- c. The information about the liability is capable of making a difference in user decisions.
- d. The information about the liability is representationally faithful, verifiable, and neutral.

The Task Force further observed that the provisions of Statement 5 and other applicable literature (including Interpretation 14) should be followed in determining when to recognize losses incurred. The Task Force noted that under that literature, many of the losses and costs that entities expect to incur as a result of the September 11 events will not qualify for immediate recognition as a liability. For example, the costs of restoring a facility (whether capitalizable or not) to a condition suitable for occupancy should be recognized as the restoration efforts occur. Thus, the fact that an entity intends to incur costs as a result of the September 11 events (or may even be compelled to incur those costs to stay in business) does not necessarily mean that those costs should be immediately recognized as a liability.

The Task Force observed that an entity may be required to continue making operating lease payments on equipment or facilities that are temporarily unusable<sup>1</sup> as a result of the September 11 events. The Task Force reached a consensus that under the requirements of Statement 5 (and Interpretation 14), an entity should recognize a liability as of September 11 for such operating lease rentals provided that the period of time that the equipment or facilities will be unusable can be reasonably estimated. The Task Force also noted that as a result of the September 11 events an entity may temporarily idle equipment or facilities that are not unusable. The Task Force reached a consensus that operating lease expense (if any) on temporarily idled equipment or facilities should be recognized in accordance with paragraph 15 of Statement 13 and related guidance during the period the equipment or facilities are idled. That is, no change in the recognition principles for operating rentals on such equipment or facilities is appropriate under generally accepted accounting principles even though they have been temporarily idled. The Task Force noted that the foregoing consensus with respect to recognition of operating lease expenses on temporarily unusable and temporarily idled equipment or facilities are subject to further consideration in EITF Issue No. 99-14, "Recognition by a Purchaser of Losses on Firmly Committed Executory Contracts," and that it will not be constrained in that Issue by the consensus reached in this Issue. The Task Force observed that entities should continue to recognize depreciation expense on capitalized equipment or facilities that are temporarily unusable or temporarily idled. That is, no change in the recognition principles for depreciation of equipment or facilities is appropriate under generally accepted accounting principles even if they are temporarily unusable or temporarily idled. The examples in Exhibit 01-10A provide additional guidance on when to recognize losses incurred.

On Issue 3, the Task Force noted that in accordance with the guidance in paragraph 4 of Interpretation 30, any insurance recoveries resulting from losses or costs incurred as a result of the September 11 events should be classified in a manner consistent with the related losses (that is, within income from continuing operations). With respect to the timing of recognition of insurance recoveries, the Task Force reached a consensus that entities should follow the guidance in paragraph 3 of Interpretation 30 (for recoveries in connection with property and casualty losses) or paragraphs 140 and 141 of SOP 96-1 (for recoveries in connection with environmental obligations), as applicable. That guidance generally requires that an asset relating to the insurance recovery should be recognized only when realization of the claim for recovery of a loss recognized in the financial statements is deemed probable<sup>2</sup> (as that term is used in Statement 5). In

addition, under the requirements of paragraph 17 of Statement 5, a gain (that is, a recovery of a loss not recognized in the financial statements or an amount recovered in excess of a loss recognized in the financial statements) should not be recognized until any contingencies relating to the insurance claim have been resolved (see Examples 7 and 8 in Exhibit 01-10A for further guidance regarding recognition of insurance recoveries). The Task Force observed that in some circumstances, costs or losses may be recognized in the statement of operations in a different (earlier) period than the related recovery.

On Issue 4, the Task Force reached a consensus that federal assistance (in the form of direct compensation under the Act) received by air carriers should be classified as part of income from continuing operations in the statement of operations. Further, the Task Force reached a consensus that when recognized in the statement of operations, such federal assistance should not be netted against losses or costs incurred by air carriers as a result of the September 11 events or reported as operating revenue (and thereby included in gross margin). That is, such federal assistance received by air carriers under the Act should be reported on a "gross" basis in the statement of operations (for example, as a separate line item or in other nonoperating income). With respect to the timing of recognition, the Task Force reached a consensus that federal assistance in the form of direct compensation provided under the Act should be recognized by air carriers when the compensated losses are incurred, provided that collection of (and the air carrier's right to retain) the federal assistance is probable (as that term is used in Statement 5). The Task Force noted that because the Act does not define direct and incremental losses, the question of which losses are eligible for compensation, and therefore the amount of federal assistance recognized at any given date, depends on the facts and circumstances and how the Act is interpreted. The Task Force further noted that in any case, the amount of compensation recognized by an air carrier should not exceed the lesser of its actual direct and incremental losses incurred or its maximum allocation of the aggregate compensation under the Act.

At its June 2, 2007 meeting, the working group adopted a consensus that the disclosure required by issue 5 is no longer useful and determined to update paragraph 7 as follows:

On Issue 5, the working group adopted the Task Force's consensus with certain modifications as indicated below and concluded that entities should follow the guidance set forth in paragraph 26 of Opinion 30 pertaining to presentation and disclosure of unusual items, if applicable to losses suffered as an insured. ~~Additionally, all entities as applicable should, at a minimum, disclose the following information as a separate footnote to the financial statements in all periods affected by the September 11 events:~~

- ~~a. A description of the nature and amounts of losses recognized as a result of the September 11 events and the amount of related insurance recoveries (if any), including reinsurance recoveries recognized.~~
- ~~b. A description of contingencies (in the case of an *insured*) or unpaid claims or losses (in the case of an *insurer*) resulting from the September 11 events that have not yet been recognized in the financial statements but that are reasonably expected to impact the entity's financial statements in the near term. SSAP No. 5 provides further discussion of recognition of contingencies and disclosure guidance as an *insured* and SSAP No. 55 presents further discussion of recognition of unpaid claims or losses and disclosure guidance as an *insurer*.~~
- ~~c. Applicable disclosures related to risks and uncertainties pursuant to SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures, paragraphs 10–16.~~

- d. ~~Applicable disclosures about environmental obligations (and recoveries) pursuant to paragraphs 152, 153, 157, 158, and 159 of AICPA Statement of Position 96-1, Environmental Remediation Liabilities.~~

The Task Force observed that the above disclosure requirements are intended to supplement relevant disclosures required by existing authoritative literature and are important to the transparency of the financial statements because of the pervasive effects of the September 11 events.

**INT 01-32 Status**

8. No further discussion is planned.