Interpretation of the Emerging A

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):

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 slotlagiSuao7(c) diree(ng(o)s)6T0.0tTJ 1rebe an 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 unusable1 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 r 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

~~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.