

Statutory Issue Paper No. 5

Definition of Liabilities, Loss Contingencies and Impairments of Assets

STATUS

Finalized March 16, 1998

Original SSAP: SSAP No. 5; Current Authoritative Guidance: SSAP No. 5R

Type of Issue:

Common Area

SUMMARY OF ISSUE

Loss Contingencies or Impairments of Assets

4. For purposes of implementing the statutory accounting principles of loss contingency or impairment of an asset described below the following additional definitions shall apply:

Probable - The future event or events are likely to occur.

Reasonably Possible - The chance of the future event or events occurring is more than remote but less than probable.

Remote - The chance of the future event or events occurring is slight.

5. A “loss contingency” or “impairment of an asset” is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an enterprise that will ultimately be resolved when one or more future event(s) occur or fail to occur (e.g., collection of receivables).

6. An estimated loss from a loss contingency or the impairment of an asset shall be recorded by a charge to operations if both of the following conditions are met:

- a. Information available prior to issuance of the statutory financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the statutory financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability, and
- b. The amount of loss can be reasonably estimated.

7. This accounting shall be followed even though the application of other prescribed statutory accounting principles or valuation criteria may not require, or does not address, the recording of a particular liability or impairment of an asset (e.g., known impairment of an invested asset even though published VOS manual has not recognized impairment).

8. Additionally, in instances where a judgment, assessment or fine has been rendered against a company, there is a presumption that the criteria in paragraph 6 are met.

11. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential

Drafting Notes/Comments

- Appropriation of retained earnings and gain contingencies (e.g., paragraphs 15 and 17 of FAS 5) are covered in separate issue papers.
- *FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan*, is addressed in its entirety in a separate issue paper.
- Impairment of mortgage loans, real estate investments and other invested assets are addressed in separate issue papers.
- Policy, loss and claim reserves are addressed in separate issue papers.
- Surplus notes is addressed in a separate issue paper.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

RELEVANT LITERATURE**Statutory Accounting Practices and Procedures**

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy

Generally Accepted Accounting Principles

- *FASB Statement of Accounting Concepts No. 6, Elements of Financial Statements*
- *FASB Statement No. 5, Accounting for Contingencies*
- *FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan*
- *FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss, An Interpretation of FASB Statement No. 5*
- *FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others, An interpretation of FASB Statement No. 5*
- *Accounting Principles Board Opinion No. 12, Omnibus Opinion—1967, paragraphs 2 and 3*

State Regulations

- Oregon Insurance Statutes, Title 56, Chapter 733, *Accounting and Investments*

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