

Interpretation of the Emerging Accounting Issues Working Group**INT 01-03: Assets Pledged as Collateral or Restricted for the Benefit of a Related Party****ISSUE NULLIFIED BY SSAP NO. 4****INT 01-03 Dates Discussed**

December 4, 2000; March 26, 2001; June 11, 2001

INT 01-03 References

SSAP No. 4—Assets and Nonadmitted Assets (SSAP No. 4)

INT 01-03 Issue

1. Holding companies and their subsidiaries often issue debt securities. In certain circumstances, the debt is collateralized using the invested assets of a related party (hereafter as defined within *SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties*). The assets of the subsidiary or sister insurance entity may be pledged as collateral or otherwise restricted for this purpose.

2. Per review of the Preamble to the *Accounting Practices and Procedures Manual* and SSAP No. 4, there is no direct reference that requires an entity to nonadmit assets involved in situations described above.

3. The accounting issue is if a related party pledges as collateral certain assets of the reporting entity should such assets be nonadmitted by the reporting entity?

4. The working group reached a consensus that if assets of an insurance entity are pledged or otherwise restricted by the action of a related party, the assets are clearly not under the exclusive control of the insurance entity. It follows that if these assets are pledged for the benefit of others, then the assets are not available to satisfy policyholder obligations. Although the specific instruction is not given, these assets are unavailable to satisfy policyholder obligations.