Interpretation of the Emerging Accounting Issues Working Group

INT 02-07: Definition of Phrase "Other Than Temporary"

ISSUE NULLIFIED BY INT 06-07

INT 02-07 Dates Discussed

March 18, 2002; June 9, 2002; December 5, 2004; March 13, 2005

INT 02-07 References

(SSAP No. 26)

(SSAP No. 30)

(SSAP No. 32)

(SSAP No. 37)

(SSAP No. 39)

INT 02-07 Discussion

3. On June 9, 2002, the working group reached a consensus[1] position regarding each of the accounting issues as noted below. On March 13, 2005 the working group reached a consensus to update paragraph 5 and insert paragraph 6 as shown in tracked changes below.

4. Question a – No. The working group believes that the NAIC consciously chose the phrase “other than temporary” because it did not intend that the test be “permanent impairment.” The fair value of assets may decline for various reasons. The market price may be affected by general market conditions, which reflect prospects for the economy as a whole, or by specific information pertaining to an industry or an individual company. Such declines require further investigation by management. Acting upon the premise that a write-down may be required, management should consider all available evidence to evaluate the fair value of its investment.

5. There are numerous factors to be considered in such an evaluation and their relative significance will vary from case to case. The working group believes that the following are only a few examples of the factors, which, individually or in combination, indicate that a non-interest related decline is other than temporary and that a write-down of the carrying value is required:

   a. The length of time and the extent to which the fair value has been less than cost;

   b. The financial condition and short-term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the asset or the discontinuance of a segment of the business that may affect the future earnings potential; or

   c. The intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

6. An interest related impairment should be deemed other-than-temporary when an investor has the intent to sell, at the reporting date, an investment before recovery of the cost of the investment. The investor should consider whether its cash or working capital requirements and contractual or regulatory obligations indicate that the investment may need to be sold before the forecasted recovery occurs.

7. Unless evidence exists to support the assertion that the decline in fair value below carrying value is temporary, a write-down accounted for as a realized loss should be recorded. In accordance with the guidance of the SSAPs, such loss should be recognized in the determination of net income for the period in which it occurs. The written down value of the investment in the company becomes the new cost basis of the investment.

8. Question b – No. The working group is aware that certain insurers, independent auditors and state examiners, over time, have developed quantitative thresholds as "rules of thumb" to

all relevant qualitative considerations. The use of such thresholds removes the ability of management to apply its judgment, a concept inherent to the impairment model.