

Interpretation of the Emerging Accounting Issues Working Group**INT 02-08: Application of A-791 to YRT Reinsurance of a Block of Business****ISSUE NULLIFIED BY SSAP NO. 61****INT 02-08 Dates Discussed**

March 18, 2002; June 9, 2002; September 10, 2002; December 8, 2002

INT 02-08 References

SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance (SSAP No. 61)
Appendix A-791—Life and Health Reinsurance Agreements (A-791)

INT 02-08 Issue

1. SSAP No. 61 paragraphs 47-49 provide accounting guidance on gains and losses on indemnity reinsurance. Paragraph 48 refers to A-791 for the accounting treatment of gains on reinsurance of in-force blocks of business. Appendix A-791 specifically states that it does not apply to yearly renewable term (YRT) reinsurance.
2. The accounting is if a reporting entity enters into a YRT reinsurance treaty on an in force block of business that results in a gain, would the reporting entity follow the deferral guidance as outlined in A-791 paragraph 3, or would the entity be allowed to record the entire gain as income immediately?

INT 02-08 Discussion

3. The working group reached a consensus that paragraph 19 of SSAP No. 61 requires that YRT reinsurance agreements comply with certain of the risk transfer provisions of A-791; paragraphs 47-49 of SSAP No. 61 apply to indemnity reinsurance; and therefore YRT reinsurance agreements shall also be subject to the deferral guidance in paragraph 3 of A-791. Since YRT only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience.
4. The working group reached a consensus that the application of said guidance shall be applied on a prospective basis for all treaties entered into on or after January 1, 2003.

INT 02-08 Status

5. No further discussion planned.