If an asset meets one of these criteria, the asset shall be reported as a nonadmitted asset and charged against surplus unless otherwise specifically addressed within the Codification. The asset shall be depreciated or amortized against net income as the estimated economic benefit

11. Receivables for securities not received within 15 days from the settlement date shall be nonadmitted, and shall be classified as other-than-invested assets.

12. Receivables arising from the secondary sale of securities acquired on a TBA basis which have not yet been received by the seller in the secondary sale transaction, may be admitted until the security is exchanged for payment. TBA securities are originally purchased well in advance of the actual date of security issuance (frequently 90 days or more). Accordingly, secondary sales of securities so acquired may occur before the date of issuance. Sales of securities so acquired always include a provision that requires simultaneous delivery of the security and receipt of consideration. Upon the secondary sale, and prior to the actual receipt, of a security acquired on a TBA basis, the seller in the secondary sale transaction records a liability for the book value of the security thus sold and a receivable for the consideration reflected in the secondary sale transaction. Profits or losses emanating from the secondary ulI Tw T8
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DISCUSSION

20. For those items specifically addressed within this issue paper the principles established are consistent with current statutory accounting practices except as follows:

   a. With respect to the principles outlined in paragraph 7, collateral loans, the conclusion modifies current statutory accounting to require the evaluation and recording of an impairment in value of collateral loans. The method of evaluating and recording an impairment of value is consistent with FAS 114 which was adopted in *Issue Paper No. 37—Mortgage Loans*.

   b. With respect to the principles outlined in paragraph 11, receivables for securities, the conclusion modifies current statutory accounting to require that amounts not received within 15 days from the settlement date be nonadmitted. Issue Paper No. 4 states that an asset not readily available to satisfy policyholder obligations *"shall be recorded as a nonadmitted asset and charged against surplus."* This is [illegible]

Conservatism

Conservative valuation procedures provide protection to policyholders against adverse fluctuations in financial condition or operating results. Statutory accounting should be reasonably conservative over the span of economic cycles and in recognition of the primary responsibility to regulate for financial solvency.

Recognition

The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet but rather should be charged against surplus when acquired or when availability otherwise becomes questionable.

Drafting Notes/Comments

- *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets*, discusses and outlines the appropriate treatment for the impairment of assets.
- *Issue Paper No. 26—Bonds, Excluding Loan-Backed and Structured Securities*, discusses and outlines the appropriate recording and valuation of bonds.
- *Issue Paper No. 37—Mortgage Loans*, discusses and outlines the appropriate recording and valuation of mortgage loans.
- *Issue Paper No. 43—Loan-Backed and Structured Securities*

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25. Chapter 8 of the P & C Accounting Practices and Procedures Manual provides the following guidance:

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The following paragraphs are addressed in other issue papers and as such the Chapter 8 discussion is not excerpted here.

28. Accounting for the impairment of a loan is contained in FAS 114, as amended by *FASB Statement No. 118*, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures* (FAS 118). Pertinent excerpts are as follows:

> 8. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due acco

types of life insurance contracts, new provisions in traditional contracts, and changes in the insurance industry have led some to question the 1970 Accounting Interpretation. In October 1984, the AICPA's Accounting Standards Executive Committee (AcSEC) approved an Issues Paper entitled "Accounting for Key-Person Life Insurance." In the Issues Paper, AcSEC reaffirmed support of the cash surrender value method as the only generally accepted method. The AcSEC position differed from the position of the AICPA Insurance Companies Committee, which supported use of a different method in certain circumstances. AcSEC was concerned that diversity would develop in practice because of the difference between those positions and requested that the FASB consider the matter.

5. A premium paid by a purchaser of life insurance serves a variety of purposes. A portion of the premium pays the insurer for assumption of mortality risk and provides for recovery of the insurer's contract acquisition, initiation, and maintenance costs. Another portion of the premium contributes to the accumulation of contract values. The relative amounts of premium payment credited to various contract attributes change over time as the age of the insured party increases and as earnings are credited to previously established contract values.

6. An insurance contract is significantly different from most investment agreements. The various attributes of the policy could be obtained separately through term insurance and purchase of investment. The combination of benefits and contract values could not, however, typically be acquired absent the insurance contract. Continued protection from mortality risk and realization of scheduled increases in contract accumulation usually requires payment of future premiums.

7. The payment of insurance premiums may take a number of different forms. The insurance contract may be purchased through payment of a single premium, as opposed to the typical series of future premiums. Alternatively, the premium payments may be made through loans from the insurance company that are secured by policy cash surrender values. The pattern of premium payments is a decision that does not alter the underlying nature of the insurance contract.

Consideration of Comments Received on Proposed Technical Bulletin

8. A proposed Technical Bulletin, Accounting for Business-Owned Life Insurance, was released for comment on June 28, 1985. Forty-seven letters of comment were received on the proposed Technical Bulletin. Certain of the comments received and consideration of them are discussed in the following paragraphs.

9. Some respondents view the dominant objective of a life insurance contract to be investment. Subject to certain criteria evidencing an intent to continue the contract, they maintain that the contract meets the definition of an asset established in paragraph 19 of Concepts Statement 3, which states, "Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events" (footnote reference omitted). Those who hold this view suggested that such contracts should be accounted for using methods that result in reporting the investment in life insurance at amounts different from those stipulated in the contract.

10. This Technical Bulletin does not take that view. The current capacity to realize contract benefits is limited to settlement amounts specified in the contract. Additional amounts in excess of cash surrender value, which would be reported as assets under the various alternative accounting methods suggested, are created by future events, which typically include premium payments and earnings credited to contract amounts.

11. Paragraph 123 of Concepts Statement 3 discusses the occurrence of past events and the role of future events in the recognition of assets.

Since the transaction or event giving rise to the enterprise's right to the future economic benefit must already have occurred, the definition excludes from assets items that may in the future become an enterprise's assets but have not yet become its assets. An enterprise has no asset for a particular future economic benefit if the transactions or events that give it access to and control of the benefit are yet in the future.

12. Some respondents asserted that reporting an insurance investment at its realizable value represents an accounting based on liquidation values. Those respondents suggested that the entity acquiring an insurance contract is, in many cases, economically or contractually committed to maintain the contract in force. They maintained that such a commitment virtually assures that benefits in excess of premiums paid would be realized and that the policy should be reported on a basis other than its cash surrender value.

13. This Technical Bulletin does not accept that view. The amount realizable under an insurance investment represents settlement values agreed to by an independent buyer and seller. The variety of yields and contract accumulation patterns available in the insurance marketplace provides the buyer and seller a variety of insurance and settlement options. There is no compelling justification to depart from the recording of such contracts based on agreed provisions. The commitment referred to by respondents is, in the staff's view, a commitment to ensure that assets are available to meet contractual obligations. The presence of such a commitment does not change the measurement of the asset that is expected to satisfy the obligation.

14. Some respondents asserted that policy features, most notably the business exchange rider, were significant factors in determining the proper accounting for the policy. The business exchange rider allows a company to use values in an existing policy to insure a different employee when the originally insured employee leaves the company. They maintain that this feature gives the employer the ability to transfer the contract freely and enhances the employer's ability to realize the future value of the investment. They further maintain that the increased probability of realizing future values should lead to the reporting of amounts in excess of cash surrender value.

15. This Technical Bulletin rejects that view. The business exchange rider is a significant

Generally Accepted Accounting Principles

- *FASB Statement No. 114, Accounting by Creditors for the Impairment of a Loan*
- *Accounting Principles Board Opinion No. 21, Interest on Receivables and Payables*
- *FASB Emerging Issues Task Force No. 88-5, Recognition of Insurance Death Benefits*
- *FASB Technical Bulletin 85-4, Accounting for Purchases of Life Insurance*

State Regulations

- No additional guidance obtained from state statutes or regulations.

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