Statement of Statutory Accounting Principles No. 28

Nonmonetary Transactions

STATUS

Type of Issue:	Common Area
Issued:	Initial Draft
Effective Date:	January 1, 2001
Affects:	No other pronouncements
Affected by:	Superseded by SSAP No. 95
Interpreted by:	INT 99-21, INT 00-12, INT 00-26, INT 02-19, INT 03-16

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Nonmonetary Transactions

SCOPE OF STATEMENT

1. This statement establishes general statutory accounting principles for nonmonetary transactions. Specific statutory requirements for certain types of nonmonetary transactions are addressed in other statements.

SUMMARY CONCLUSION

2. The definitions of certain terms used in this statement are:

   a. Monetary assets and liabilities are assets and liabilities whose amounts are fixed in terms of units of currency by contract or otherwise. Examples are cash; amounts due from agents, brokers, and intermediaries; policy loans; accounts payable; and other amounts receivable or payable in cash;

   b. Nonmonetary assets and liabilities are assets and liabilities other than monetary ones. Examples are common stocks; furniture, fixtures, and equipment; real estate and liabilities for rent collected in advance;

   c. Exchange (or exchange transaction) is a reciprocal transfer between a reporting entity and another entity that results in the reporting entity acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations;

   d. Nonreciprocal transfer is a transfer of assets or services in one direction, either from a reporting entity to its owners (whether or not in exchange for their ownership interests) or another entity, or from owners or another entity, to the reporting entity. An insurance company's reacquisition of its outstanding stock is an example of a nonreciprocal transfer.

3. Except as addressed in other statements (including, but not limited to, *SSAP No. 12—Employee Stock Ownership Plans*, *SSAP No. 13—Stock Option and Stock Purchase Plans, SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* (SSAP No. 25), *SSAP No. 68—Business Combinations and Goodwill*, and *SSAP No. 72—Surplus and Quasi-reorganizations*), nonmonetary transactions shall be accounted for in accordance with *Accounting Principles Board Opinion No. 29, Accounting for Nonmonetary Transactions* (APB 29). The accounting for such transactions shall be based on the fair values of the assets (or services) involved, as defined in paragraph 25 of APB 29.

4. In a reciprocal transfer, the fair value of the asset surrendered shall be used to measure the cost of the assets received unless the fair value of the asset received is more clearly evident.

5. A nonmonetary asset received in a nonreciprocal transfer shall be recorded at the fair value of the asset received. A nonmonetary asset transferred to a stockholder or other entity in a nonreciprocal transfer shall be accounted for at the fair value of the asset transferred and a gain or loss on disposition of the asset recognized for the difference, if any, between fair value and carrying value of the asset transferred.

6. Fair value of assets received or transferred in a nonreciprocal transfer shall be measured based on statutory accounting principles for the type of asset transferred. Accordingly, the value shall be determined in accordance with *SSAP No. 26—Bonds, Excluding Loan-Backed and Structured Securities, SSAP No. 30—Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities), SSAP No. 32—Investments in Preferred Stock (including investments in preferred stock of subsidiary, controlled, or affiliated entities), SSAP No. 37—Mortgage Loans, SSAP No.*

39—Reverse Mortgages, SSAP No. 40—Real Estate Investments, SSAP No. 43—Loan-Backed and Structured Securities or other applicable statement. The guidance provided in SSAP No. 25 shall be followed in accounting for nonreciprocal transactions.

7. Stock received in the form of a stock dividend or stock split shall not result in the recognition of income. The cost basis of stock held shall be reallocated ratably to the total shares held after receipt of the stock dividend or stock split.

8. Involuntary conversions of nonmonetary assets to monetary assets (for example, as a result of total or partial destruction, theft, seizure, or condemnation) are monetary transactions for which gain or loss shall be recognized even though a reporting entity reinvests or is obligated to reinvest the monetary assets in replacement nonmonetary assets. In some cases, a nonmonetary asset may be destroyed or damaged in one accounting period, and the amount of monetary assets to be received is not determinable until a subsequent accounting period. In those cases, gain or loss shall be recognized in accordance with the conclusions in *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets* (SSAP No. 5). Gain or loss resulting from an involuntary conversion of a nonmonetary asset to monetary assets shall be reported consistently with the reporting entity's reporting of continuing operations and disclosed in the notes to financial statements in accordance with *SSAP No. 24—Discontinued Operations and Extraordinary Items* (SSAP No. 24).

Disclosures

9. A reporting entity that engages in a nonmonetary transaction during a period shall disclose the following in the financial statements:

a. The nature of the transaction;

b. The basis of accounting for the assets transferred; and

c. Gains or losses recognized on transfers.

10. Refer to the preamble for further discussion regarding disclosure requirements. The disclosure in paragraph 9 above shall be included in the annual audited statutory financial reports only.

Relevant Literature

11. This statement adopts APB 29, *FASB Emerging Issues Task Force No. 86-29, Nonmonetary Transactions: Magnitude of Boot and the Exceptions to the Use of Fair Value*, and *FASB Emerging Issues Task Force No. 93-11, Accounting for Barter Transactions Involving Barter Credits.*

12. This statement adopts *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins*, "Chapter 7, Capital Accounts, Section B—Stock Dividends and Stock Split-ups," paragraphs 1-9, as it relates to the receipt of stock in the form of a stock dividend or stock split.

13. This statement adopts *FASB Interpretation No. 30, Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets* with modification to provide that gain or loss contingencies be recognized in accordance with SSAP No. 5, and that gain or loss resulting from an involuntary conversion of nonmonetary assets to monetary assets be accounted for in continuing operations and disclosed in accordance with SSAP No. 24.

14. This statement rejects paragraph 16 of *Accounting Principles Board Opinion No.* 6, *Status of Accounting Research Bulletins* and *Emerging Issues Task Force No. 96-4, Accounting for Reorganizations Involving a Non-Pro Rata Split-off of Certain Nonmonetary Assets to Owners.*

Effective Date and Transition

15. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

AUTHORITATIVE LITERATURE

Generally Accepted Accounting Principles

- *Accounting Principles Board Opinion No. 29, Accounting for Nonmonetary Transactions*
- *Accounting Research Bulletin No. 43, Resor*