Statements of Statutory Accounting Principles No. 88

Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 46

STATUS

Type of Issue:	Common Area
Issued:	June 14, 2004
Effective Date:	January 1, 2005
Affects:	Supersedes SSAP No. 46 Supersedes the title and paragraphs 2 and 3 of SSAP No. 32 Supersedes SSAP No. 68 paragraphs 4, 5 and 6 Nullifies INT 99-03, INT 99-28, INT 00-01, INT 01-22. INT 01-24
Affected by:	Superseded by SSAP No. 97
Interpreted by:	INT 99-00, INT 00-24, INT 01-07, INT 02-07, INT 03-03, INT 03-16, INT 04-10, INT 06-07

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Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 46

approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:

i.

Generally Accepted Accounting Principles (GAAP) financial statements shall be adjusted to a statutory basis of accounting (refer to paragraph 9). For purposes of this section, revenue means GAAP revenue reported in the audited GAAP financial statements excluding realized and unrealized capital gains/losses. Paragraphs 17-19 provide guidance for investments in holding companies;

iii. Investments in noninsurance SCA entities that do not qualify under subparagraph 8.b.ii. shall be recorded based on the audited GAAP equity of the investee;

iv. Investments in foreign insurance SCA entities shall be recorded based on the underlying audited U.S. GAAP equity of the respective entity adjusted to a statutory basis of accounting in accordance with paragraph 9 and adjusted for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from a U.S. insurer using the statutory accounting principles promulgated by the NAIC in the *Accounting Practices and Procedures Manual*.

The recorded GAAP equity shall be adjusted for any audit adjustments resulting from either the annual GAAP audit of the respective entity or, if the entity is a member of a consolidated group of insurers, the annual audit of the consolidated group of companies, as soon as determined. GAAP is defined as those pronouncements included in the United States GAAP Hierarchy as described in *AICPA Statement of Auditing Standard No. 69, The Meaning of "Presents Fairly in Conformity With GAAP"*. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country. Investments in foreign noninsurance SCA entities shall follow the guidance in 8 b. ii., and 8 b. iii. above.

9. Statutory basis for accounting for investments in noninsurance SCA entities, subject to paragraph 8.b.ii. and foreign insurance SCA entities, subject to paragraph 8.b.iv., shall be based on the underlying audited U.S. GAAP equity of the respective entity with the following adjustments:

a. Nonadmit assets pursuant to the following statutory accounting principles as promulgated by the NAIC in the *Accounting Practices and Procedures Manual*;

i. *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*

ii. *SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements*

iii. *SSAP No. 20—Nonadmitted Assets*

iv. *SSAP No. 29—Prepaid Expenses*

v. *SSAP No. 16—Electronic Data Processing Equipment and Software*

vi. *SSAP No. 79—Depreciation of Nonoperating System Software*

b. Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the *Accounting Practices and Procedures Manual* (e.g., deferred policy acquisition costs);

c. Adjust depreciation for certain assets in accordance with the following statutory accounting principles:

   i. *SSAP No. 16—Electronic Data Processing Equipment and Software* and *SSAP No. 79—Depreciation of Nonoperating System Software*

   ii. *SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements*

12. For investments in entities recorded based on the underlying audited GAAP equity of the investee, the amount to be recorded shall be defined as the initial investment in an investee at cost (excluding any investments in an investee's preferred stock), which is defined in SSAP No. 68. Investments in an SCA's preferred stock are addressed in paragraphs 20 and 21. The carrying amount of the investment shall be adjusted to recognize the reporting entity's share of the audited GAAP basis earnings or losses of the investee after the date of acquisition, adjusted for any dividends received. A reporting entity's share of adjustments that are recorded directly to the investee's stockholder's equity under GAAP shall also be recorded as adjustments to the carrying value of the investment with a corresponding amount recorded directly to unrealized capital gains and losses on investments. For entities subject to paragraphs 8.b.ii. or 8.b.iv. additional adjustments are required in accordance with paragraph 9.

13. On at least a quarterly basis, the procedures set forth below shall be followed by a reporting entity in applying an equity method of accounting (as described in paragraphs 8.b.i. through 8.b.iv.), as applicable, to investments in SCA entities:

a. A difference between the cost of an investment and the underlying equity in the statutory or GAAP book value, as applicable, of the acquired company at the date of acquisition shall be accounted for in accordance with SSAP No. 68 however, positive goodwill for noninsurance SCA entities subject to paragraph 8.b.ii. and foreign insurance SCA entities subject to paragraph 8.b.iv. shall be subject the admissibility criteria in paragraph 9.d. rather than the admissibility criteria of paragraph 7 of SSAP No. 68.

b. A transaction of an investee of a capital nature that affects the reporting entity's share of stockholders' equity of the investee shall be reflected as an unrealized gain or loss (e.g., where the investee issues additional stock or a new class of stock that impacts the reporting entity's equity ownership in the investee, the reporting entity's recorded investment shall be adjusted to reflect the transaction);

c. Realized gains or losses on the sale of an investment in a SCA entity shall be recorded in an amount equal to the difference at the time of sale between the selling price and carrying amount of the investment plus any previously recorded unrealized gain or loss;

d. If financial statements of an investee are not sufficiently timely for the reporting entity to apply an equity method to the investee's current results of operations, the reporting entity shall record its share of the earnings or losses of an investee from the most recent

g. An investment in a SCA entity may fall below the level of ownership described in paragraph 5 from the sale of a portion of an investment by the reporting entity, the sale of additional interests by an investee, or other transactions. The reporting entity shall discontinue accruing its share of the earnings or losses of the investee for an investment that no longer qualifies for an equity method. The earnings or losses that relate to the investment interests retained by the reporting entity and that were previously accrued shall remain as a part of the carrying amount of the investment. The investment account shall not be adjusted retroactively under the conditions described in this subparagraph. However, dividends received by the investor in subsequent periods which exceed the reporting entity's share of earnings for such periods shall be applied as a reduction of the carrying amount of the investment.

14. Once the reporting entity elects to use a valuation approach for a particular subsidiary, the reporting entity may not change the valuation method to another method without the approval of the domiciliary commissioner. For instance, if an entity selects the market valuation method, it may not change to an equity method or vice versa without approval from the domiciliary commissioner. Further, in order for an entity to transfer from a paragraph 8.a., or 8.b.ii. valuation to a paragraph 8.b.iii. valuation, the SCA shall not exceed the 20% threshold (as defined in paragraphs 8.b.ii.) for three consecutive years prior to making the change. When an investment qualifies for use of another method of accounting, the reporting entity shall adopt the new method of accounting and the investment shall be adjusted to reflect the reporting entity's equity interest in the SCA entity under the new method. A corresponding amount shall be recorded as an unrealized gain or loss.

15. A reporting entity that owns an interest in itself via direct ownership of shares of an upstream intermediate or ultimate parent shall reduce the value of such shares for the reciprocal ownership. If the shares of the parent are owned indirectly by a reporting entity, via a downstream SCA entity, the directly held entity, which owns the parent's shares, shall have its value reduced for the reciprocal ownership.

16. Any parent reporting entity that owns an interest in itself via either direct or indirect ownership of a down-stream affiliate, which in turn owns shares of the parent reporting entity, shall eliminate its interest in these shares from the valuation of such affiliate.

Investments in Downstream Holding Companies

17. Valuation of a downstream holding company depends upon the nature of the SCA entities it holds in accordance with paragraph 8 and the guidance contained in the applicable SSAP for non-SCA investments. If an SCA investment of the downstream holding company does not meet the provisions of paragraph 8.a. or if it elects not to use the guidance in paragraph 8.a., ment0.0013 Tc 0.00geaddan hdn07 Tc 20.53

18. In lieu of separate GAAP audits of SCA entities of the downstream holding company, the insurer can choose to have a GAAP audit performed at the holding company level with a consolidating balance sheet showing GAAP equity of all the SCA entities. The consolidating balance sheet shall then be adjusted for GAAP to SAP differences of the insurance entities and paragraph 8.b.ii., 8 b. iii and 8.b.iv. entities under the downstream holding company. This adjusted amount would then be the reported value of the investment in the downstream holding company at the higher-level insurance company.

19. A purchased downstream holding company is valued in accordance with the provisions of paragraph 17 and the provisions of SSAP No. 68.

Investment in Preferred Stock or Surplus Notes of a Subsidiary, Controlled and Affiliated Entity

20. When the reporting entity also holds an investment in preferred stock or surplus note(s) of an SCA and the carrying amount determined in accordance with paragraphs 8.b. and 9 includes preferred stock or surplus note(s), the investment in the SCA must be separated into its components. The carrying amount of the SCA is reduced by the value of the SCA's preferred stock or surplus note(s).

21. Investments in the preferred stock of an SCA shall be accounted for and reported in accordance with the provisions of *SSAP No. 32—Investments in Preferred Stock* (SSAP No. 32). This statement amends the title of SSAP No. 32 as follows:

> *SSAP No. 32—Investments in Preferred Stock (including investments in preferred stock of subsidiary, controlled, or affiliated entities)*

This statement amends paragraphs 2 and 3 of SSAP No. 32 to the following:

> 2. Investments in preferred stock of subsidiaries, controlled or affiliated entities are included within the scope of this statement.
>
> 3. Preferred stock (including investment in affiliates), which may or may not be publicly traded and may include shares against which exchange traded call options are outstanding, shall include:

22. Investments in the surplus notes of an SCA shall be accounted for and reported in accordance with the provisions of *SSAP No. 41—Surplus Notes.*

23. The following example is provided to illustrate the accounting and reporting. The reporting entity holds 100% of the preferred stock. The SCA issued the preferred stock for $50,000. The investment in the SCA, measured in accordance with this SSAP is $250,000 including the preferred stock of the SCA. The investment in the SCA is $200,000 ($250,000-50,000) and the preferred stock is measured and reported in accordance with SSAP No. 32.

Impairment

24. For any decline in the fair value of an investment in a SCA entity that is other than temporary, the investment shall be written down to fair value as the new cost basis and the amount of the write down shall be accounted for as a realized loss. The write down shall first be considered as an adjustment to any portion of the investment that is nonadmitted (e.g., goodwill). The new cost basis shall not be changed for subsequent recoveries in fair value. Future declines in fair value, which are determined to be other than temporary shall be recorded as realized losses. An impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to recover the carrying amount of the investment or there is evidence indicating inability of the investee to sustain earnings, which would justify the carrying amount of the investment. A fair value of an investment that is below the carrying amount based on the

statutory equity method or the existence of investee operating losses may indicate a loss in value, however, they are not necessarily indicative of a loss in value that is other than temporary.

Consolidation

25. Majority-owned subsidiaries shall not be consolidated for individual entity statutory reporting. This does not exempt certain reporting entities that are members of an affiliated group from the requirement to issue consolidated or combined annual statements as supplemental information in accordance with NAIC guidelines.

Amendments to SSAP No. 68

26. This statement supersedes paragraphs 4-6 of *SSAP No. 68—Business Combinations and Goodwill* as follows:

> 4. For those acquired SCA entities accounted for in accordance with paragraphs 8.b.i., 8.b.ii., 8.b.iii. or 8.b.iv. of SSAP No. 88, goodwill is defined as the difference between the cost of acquiring the entity and the reporting entity's share of the book value of the acquired entity. When the cost of the acquired entity is greater than the reporting entity's share of the book value, positive goodwill exists. When the cost of the acquired entity is less than the reporting entity's share of the book value, negative goodwill exists. Goodwill resulting from assumption reinsurance shall be recorded as a separate write-in for other-than-invested assets. All other goodwill shall be reported in the carrying value of the investment.
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> 5. A business combination accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with paragraphs 8.b.ii.., 8.b.iii. or, 8.b.iv. of SSAP No. 88 shall determine the amount of positive goodwill or negative goodwill created by the combination using the reporting entity's share of the GAAP net book value of the acquired entity. Business combinations accounted for under the statutory purchase method and in which the acquired entity is valued in accordance with, 8 b. i. SSAP No. 88 shall determine the amount of positive or negative goodwill created by the business combination using the insurer's share of the statutory book value of the acquired entity.
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> 6. For those acquired SCA entities accounted for in accordance with paragraph 8.b.i. under the statutory purchase method the historical bases of the acquired entity shall continue to be used in preparing its statutory financial statements. Therefore, pushdown accounting is not permitted.

Disclosures

27. The significance of an investment to the reporting entity's financial position and results of operations shall be considered in evaluating the extent of disclosures of the financial position and results of operations of an investee. The following disclosures shall be made for all investments in SCA entities that exceed 10% of the total admitted assets of the reporting entity:

a. Financial statements of a reporting entity shall disclose (i) the name of each SCA entity and percentage of ownership of common stock, (ii) the accounting policies of the reporting entity with respect to investments in SCA entities, and (iii) the difference, if any, between the amount at which the investment is carried and the amount of underlying equity in net assets (i.e., goodwill, other nonadmitted assets08 Tc o,ent of posty w8(ount ati) the nar between the amount at which the investment is carried and the quoted market price shall be disclosed;

c. Summarized information as to assets, liabilities, and results of operations shall be presented for SCA entities, either individually or in groups;

d. Conversion of outstanding convertible securities, exercise of outstanding options and warrants and other contingent issuances of an investee may have a significant effect on an investor's share of reported earnings or losses. Accordingly, material effects of possible conversions, exercises or contingent issuances shall be disclosed in notes to the financial statements of the reporting entity; and

e. For those SCA entities in which the reporting entity elected, or was required, to change its valuation method as described in paragraph 14, a description of the reason for the change and the amount of adjustment recorded as unrealized gains or losses shall be disclosed. The entity shall also disclose whether commissioner approval was obtained in accordance with paragraph 14.

28. A reporting entity that calculates its investment in a foreign insurance subsidiary by adjusting annuity GAAP account value reserves using CARVM and the related Actuarial Guidelines shall disclose the interest rates and mortality assumptions used in the calculation as prescribed by the insurance department of the foreign country.

29. Any commitment or contingent commitment to a SCA entity shall be disclosed (e.g., guarantees or commitments to provide additional capital contributions).

30. A reporting entity that recognizes an impairment loss shall disclose the following in the financial statements that include the period of the impairment write down:

a. A description of the impaired assets and the facts and circumstances leading to the impairment; and

b. The amount of the impairment and how fair value was determined.

31. Refer to the preamble for further discussion regarding disclosure requirements. The disclosures in paragraph 27.d. shall be included in the annual audited statutory financial reports only.

Relevant Literature

32. This statement adopts the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*.

33. This statement adopts *FASB Interpretation No. 35, Criteria for Applying the Equity Method of Accounting for Investments in Common Stock, an Interpretation of APB Opinion No. 18* as guidance to be

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by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee

ILLUSTRATION OF ACCOUNTING FOR SCAS

This illustration, accompanying this Statement, is intended to provide an example of the application of paragraphs 8.b.ii. and 8.b.iii. Where an SCA meets the criteria of 8 b. ii., the illustration further demonstrates the necessary adjustments described in paragraph 9. While not all inclusive, the illustration is representative of the process and adjustments necessary to comply with this Statement. That is, the reporting entity must, first, determine which sub-section of paragraph 8 applies with respect to each SCA. Secondly, where the reporting entity has determined that an SCA meets the criteria of section 8 b. ii. or 8 b. iv., then the carrying amount is adjusted in accordance with the sub-section, which includes adjustments contained in the provisions of paragraph 9.

The ABC Insurance Company owns 100% of three subsidiaries:

1. ABC Real Estate, Inc. – owns and manages real estate properties and has no inter-company transactions

2. U-Lease-It, Inc. – leases furniture and equipment to local businesses including the insurance company. Lease fees received from ABC were $10 million each in 20x2 and 20x1.

3. U-Rent-It, Inc. – leases EDP equipment to local businesses including the insurance company.20pui

Determination and application of adjustments to audited GAAP equity methods (paragraph 8.b. of SSAP No. 88)

ABC Real Estate, Inc.-the company is not engaged in any activities described in 8.b.ii. No adjustments are made and ABC Insurance Company records its investment based upon audited GAAP equity in accordance with 8.b.iii.

U-Lease-It, Inc.-the company is engaged in activities described in 8.b.ii., leasing furniture and equipment. The fees paid by ABC and reflected in income of U-Lease-It, Inc. exceed 20% of GAAP revenue calculated as follows:

U-Lease-It, Inc.	(Millions)

Schedule D affiliated common stocks for ABC Insurance Company

	(Millions)	
	20x2	**20x1**
ABC Real Estate Inc.	223	219
U-Lease-It, Inc.	(123)	(132)
U-Rent-It, Inc.	30	27
Total	130	114

Note: The change in carrying value between years of $16 million is reported as an unrealized gain in 20x2

ILLUSTRATED BALANCE SHEETS

ABC Insurance Company

	20x2	20x1		20x2	20x1
Net Admitted Assets			Liabilities		
Bonds	11,210	11,150	Policy reserves	12,516	12,394
Common stock (unaffiliated)	325	315	Contract claims	30	29
Common stock (affiliated)	130	114			
Real estate	120	125	Expenses due and accrued	14	13
Mortgage loans	1,685	1,640	Misc. liabilities	250	245
Cash	10	7	Total liabilities	12,810	12,681
Sub-total	13,480	13,351	Common stock	100	100
Other assets	20	14	Unassigned funds	590	584
Total	13,500	13,365	Total equity	690	684
			Total	13,500	13,365

ABC Real Estate, Inc.

	20x2	20x1		20x2	20x1
Assets			Liabilities		
Cash	10	7	Notes payable	260	220
Bonds (available for sale)	110	103	Misc. liabilities	17	11
Real estate investments	330	280	Total liabilities	277	231
Other assets	50	60			
Total	500	450	Common stock	15	15
			Retained earnings	208	204
			Total equity	223	219
			Total	500	450

U-Lease-It, Inc.

	20x2	20x1		20x2	20x1
Assets			Liabilities		
Cash	5	7	Accounts payable	15	12
Bonds (available for sale)	20	18	Notes payable	183	190
Furniture & equipment	250	260	Total liabilities	198	202
Investments in subs (15.0 mil. Goodwill)	45	42	Common stock	15	15
Federal tax recoverable (DTA)	7	5	Retained earnings	114	115
Total	327	332	Total equity	129	130
			Total	327	332

Summary of Operations

	20x2	20x1
Revenues:		
Interest income	8.1	9.0
Realized capital gains/ (losses)	0.6	(0.2)
Investment in sub	3.0	2.6
Lease fees	34.8	35.0
Total	46.5	46.4
Expenses:		
General administration	6.4	6.2
Depreciation	42.4	41.0
Total	48.8	47.2
Net income before taxes	(2.3)	(0.8)
Federal income tax benefit	0.8	0.3
Net income	(1.5)	(0.5)
Unrealized capital gains/ losses	0.4	0.6

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U-Rent-It, Inc.

	20x2	20x1		20x2	20x1
Assets			Liabilities		
Cash	6	6	Accounts payable	3	4
Bonds (available for sale)	5	4	Notes payable	202	199
[redacted]					
Other assets	4	4			
Total	235	230	Common stock	10	10
			Retained earnings	20	17
			Total equity	30	27
			Total	235	230

Summary of Operations

	20x2	20x1
Revenues:		
Interest income	0.5	0.4
Lease fees	32.1	30.1
Total	32.6	30.5
Expenses:		
General Administration	3.0	3.0
Depreciation	25.7	24.5
Total	28.7	27.5
Net income before taxes		

[illegible]

APPENDIX A TRANSITION GUIDANCE FOR YEAR-END 2006 REPORTING QUESTIONS AND ANSWERS

The National Association of Insurance Commissioners issued Statement of Statutory Accounting Principle No. 88—*Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 46* (SSAP No. 88) with an effective date of January 1, 2005. This statement included a number of changes that have resulted in questions by reporting entities, auditors and regulators. The purpose of this appendix (Appendix A) is to provide transition guidance on areas that have not been interpreted or applied consistently. This appendix is intended to provide clear reporting guidance for year-end 2006 (and prior year 2005). The Statutory Accounting Principles Working Group intends to finalize work on SSAP No. 88 and complete the SSAP No. 88 Implementation Guide (planned as Appendix B) in 2007 for year-end 2007 and going forward.

Question 1. Is an audit of only the balance sheet acceptable to meet the SCA audit requirements of SSAP No. 88?

Answer 1. Yes, (for 2005 and 2006 reporting only). The Statutory Accounting Principles Working Group intended that in order to meet the requirements of SSAP No. 88, paragraphs 8 and 9, that audits be conducted in accordance with the Model Regulation Requiring Annual Audited Financial Reports, as adopted by the SCA's domiciliary state, and in accordance with GAAP, as defined as those pronouncements included in the United States GAAP Hierarchy as described in AICPA Statement of Auditing Standards No. 69, *The Meaning of "Presents Fairly in Conformity With GAAP*."

During the course of development of the SSAP No. 88 Implementation Guide, the Statutory Accounting Principles Working Group became aware that some reporting entities and independent accounting firms had interpreted the guidance relating to the equity value of subsidiaries to imply that an audit of only the balance sheet was sufficient to meet the audit requirements included in SSAP No. 88. An audited balance sheet will be deemed sufficient to meet the SCA audit requirements of SSAP No. 88 for subsidiaries reported under paragraphs 8.b.ii., 8.b.iii. and 8.b.iv., for year-end 2005 and 2006 reporting only. Note that U.S. insurance subsidiaries (paragraph 8.b.i entities) will continue to be required to meet applicable state laws regarding audit requirements. In addition, if an audit of the financial statements (i.e., balance sheet, summary of operations, statement of changes in capital and surplus, and cash flows) was obtained for 2005, then an audit of only the balance sheet is not sufficient for 2006.

Question 2a. If a downstream non insurance holding company is merely holding (1) subsidiary, controlled, and affiliated (SCA) entities and/or (2) joint ventures, partnerships, and/or limited liability companies in which the downstream non insurance holding company has a minor ownership interest or otherwise lacks control, i.e., ownership interest is less than 10% (hereinafter referred to as "non SCA SSAP No. 48 entities"), does not own any other additional assets, and is not held liable for any other liabilities, commitments, contingencies, guarantees or obligations of the investment in the downstream non insurance holding company, is an audit of the financial statements of the downstream non insurance holding company required, or is a "look-through" permitted?

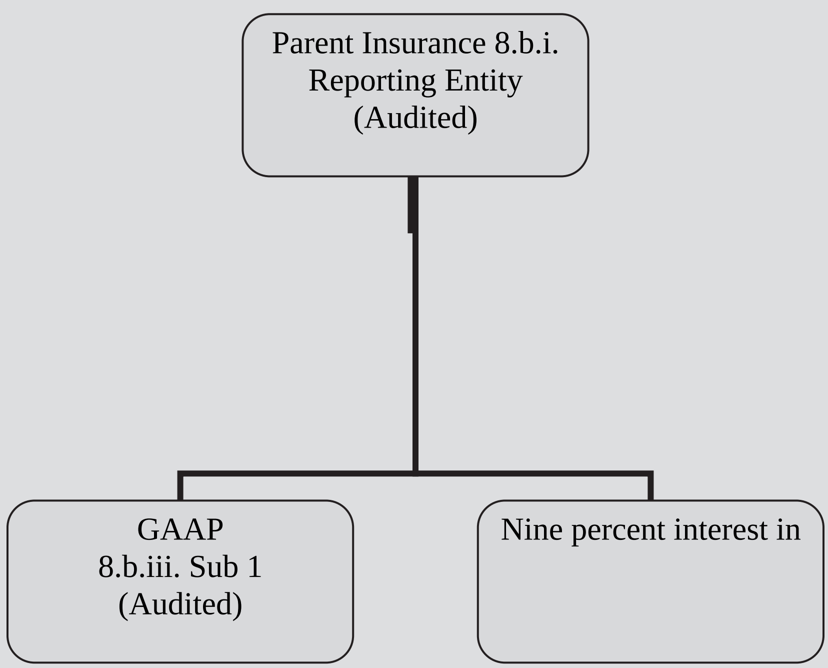
Answer 2a. The Working Group is aware that many were confused by the meaning of the language in SSAP No. 88, paragraphs 17 and 18, and will clarify that language for 2007. The divergence in interpretation focused on the number of audits required under SSAP No. 88 for downstream subsidiary, controlled, and affiliated entities including holding companies.

Some believed that an audit of the financial statements of a downstream non insurance holding companies was not required if the downstream non insurance holding company was merely holding SCA entities and/or non SCA SSAP No. 48 entities and had no other assets or liabilities. In short, it was interpreted that the financial statements of the downstream non insurance holding company need not be audited if the financial statements of the SCA entities and/or the non SCA SSAP No. 48 entities owned by the downstream non insurance holding company were audited, i.e., a “look-through” approach could be used. SSAP No. 88 indicates that SCA entities are to be valued using one of the valuation methods described in paragraph 8. All of the paragraph 8.b. valuation methods require the financial statements of SCA entities to be audited, including downstream non insurance holding companies, in order to be admitted assets. Likewise, SSAP No. 48 requires the financial statements of non SCA SSAP No. 48 entities to be audited (U.S. GAAP) in order to be admitted assets. For year-end 2005 and 2006 reporting only, it is acceptable to apply the “look through” approach for downstream non insurance holding companies that do not hold assets other than SCA entities and/or non SCA SSAP No. 48 entities, or liabilities, commitments, contingencies, guarantees or obligations, provided the financial statements of the SCA entities and/or the non SCA SSAP No. 48 entities are separately audited.

Question 2b. Can the “look-through” approach be applied to non insurance holding companies that hold assets other than SCA entities and/or non SCA SSAP No. 48 entities and/or liabilities, commitments, contingencies, guarantees or obligations? Can the “look-through” approach be applied to downstream non insurance holding companies that hold other unaudited immaterial investments?

Answer 2b. If a downstream non insurance holding company holds assets other than SCA entities and/or non SCA SSAP No. 48 entities, the financial statements of the downstream non insurance holding company shall be audited. If the financial statements of the downstream non insurance holding company are not audited, investments in unaudited SCA and/or unaudited non SCA SSAP No. 48 entities, as well as any other assets of the downstream non insurance holding company, are nonadmitted. All liabilities, commitments, contingencies, guarantees or obligations of the downstream non insurance holding company, which are required to be recorded as liabilities, commitments, contingencies, guarantees or obligations under applicable statutory accounting guidance, shall be reflected in the parent insurance reporting entity’s determination of the carrying value of the investment in the downstream non insurance holding company, if not already recorded in the financial statements of the downstream non insurance holding company.

Numerical Illustration to questions 2a and 2b:



Downstream Non Insurance Holding Company Balance Sheet

Assets		**Liabilities**	
GAAP Sub 1	100	Miscellaneous	150
Nine percent interest in an audited LLC	200		
Miscellaneous	50	**Equity**	
		Common Stock	200
Total Assets	**350**	**Total Liabilities & Equity**	**350**

Investment in Downstream Non Insurance Holding Company, including the investments in a SCA entity and a non SCA SSAP No. 48 entity	**150**
Calculation:	
Add:	
GAAP Sub 1	100
Nine percent interest in an audited LLC	200
Total	300
Less:	
Miscellaneous Liabilities	150
Net Investment in Downstream Non Insurance Holding Company, Including the investments in a SCA entity and a non SCA SSAP No. 48 entity	**150**

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