

Interpretation of the Emerging Accounting Issues Working Group

INT 00-01: Investment in Foreign SCA Entity

ISSUE NULLIFIED BY SSAP NO. 88

INT 00-01 Dates Discussed

October 4, 1999; December 6, 1999

INT 00-01 References

SSAP No. 46—Investments in Subsidiary, Controlled, and Affiliated (SCA) Entities (SSAP No. 46)

INT 00-01 Issue

1. SSAP No. 46 defines the accounting for investments in SCA entities. The following guidance is included in paragraph 7 of SSAP No. 46:

- b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 7.a. or, if the requirements are met, but a reporting entity elects not to use that approach, investments in SCAs shall be recorded as follows:
 - i. Investments in insurance SCA entities shall be recorded based on the underlying statutory equity of the respective entity's financial statements, adjusted for unamortized goodwill as provided for in *SSAP No. 68—Business Combinations and Goodwill* (SSAP No. 68).
 - ii. Investments in noninsurance SCA entities that have no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates, shall be recorded based on the underlying equity of the respective entity's financial statements adjusted to a statutory basis of accounting and the resultant proportionate share of the subsidiary's adjusted surplus, adjusted for unamortized goodwill as provided for in SSAP No. 68. Examples include but are not limited to: (i) an insurer and a SCA entity that leases autos, furniture, office equipment, or computer equipment to the insurer, (ii) an insurer and a SCA entity that owns real estate property that is leased to the insurer for office space, and (iii) an insurer and an SCA entity which holds investments which an insurer could acquire directly (i.e., "look through" investment subsidiary);
 - iii. Investments in noninsurance SCA entities that have significant ongoing operations beyond the holding of assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates shall be recorded based on the audited GAAP equity of the investee. Examples include but are not limited to: (i) a property-casualty or life insurer and a SCA entity that is an oil and gas venture, and (ii) a property-casualty insurer or life insurer and a SCA manufacturer.

2. If a reporting entity has an interest in a foreign company (defined in this context as a company located outside the United States), does the reporting entity use the foreign basis of

accounting or the United States (U.S.) basis of accounting? For instance, if a reporting entity is domiciled in South Carolina and they own an insurance company located in Germany, does the company book the statutory equity as defined by German accounting or do they convert the financials to the statutory accounting prescribed or permitted in South Carolina? This scenario is also applicable to noninsurance SCA entities that have significant ongoing operations beyond the holding of assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates. Does the reporting entity use German GAAP or U.S. GAAP?

INT 00-01 Discussion

3. The working group reached a consensus that entities shall follow the guidance outlined in the *Purposes and Procedures Manual of the Securities Valuation Office* Part 8, Section 3(g) for investments in foreign SCA entities defined in SSAP No. 46 paragraph 7.b.i. and 7.b.ii. For investments in foreign SCA entities defined in SSAP No. 46 paragraph 7.b.iii., entities shall use audited U.S. GAAP as the basis for valuation.

Part 8 - Section 3

(a) Admitted Asset Equivalent

Pursuant to this method, which may only be used for non-insurance SCA companies, the value of the common stock is limited to the value of those assets of the SCA company that would constitute lawful investments for the insurance company, if acquired or held directly by the insurance company. This is the sole valuation method that permits submission and use of an unaudited financial statement.

(g) Foreign Subsidiary

Pursuant to this provision, insurance companies may apply the Admitted Asset Equivalent method discussed in Section 3 (a) above to insurance companies organized in foreign countries. The basis for the calculation of value will be the financial statements of that insurance company for the most recent fiscal year, prepared by a certified public accountant.

INT 00-01 Status

4. No further discussion is planned.