

Interpretation of the Emerging Accounting Issues Working Group

INT 04-01: Applicability of New GAAP Disclosures Prior to NAIC Consideration

GUIDANCE ALREADY INCLUDED IN THE PREAMBLE

INT 04-01 Dates Discussed

March 14, 2004; June 13, 2004

INT 04-01 References

Preamble to the NAIC *Accounting Practices and Procedures Manual* (Preamble)
SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures
(SSAP No. 1)

INT 04-01 Issue

1. In accordance with the Preamble and the NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process, Generally Accepted Accounting Principles (GAAP) contained within the FASB Accounting Standards Codification are automatically placed on the Statutory Accounting Principles Working Group maintenance agenda for review and discussion. (As noted in the Preamble, FAS 133 Implementation Issues are excluded from the statutory review process unless individually requested for review.)

2. Recently, new GAAP pronouncements have prompted questions about when disclosures are required of reporting entities for statutory reporting purposes.

3. The Accounting Issues are as follows:

Issue 1. Did the NAIC intend to require reporting entities to comply with any relevant GAAP disclosure requirement that has not yet been explicitly considered for adoption or rejection by the NAIC, pending such consideration?

Issue 2. If the answer to Issue 1 is “yes”, then are there any circumstances under which the adoption of a new GAAP disclosure requirement could result, prior to explicit consideration of the issue by the NAIC, in a situation where reporting entities are required to make a particular disclosure in its statutory financial statement even though that disclosure is not required to be made in the entity’s GAAP statement?

4. The following is excerpted from the Preamble:

E. History of Codification

18. Recognition of this effort was given by the AICPA when in 1995 they issued Statement of Position 95-5—Auditor’s Report on Statutory Financial Statements of Insurance Enterprises (SOP 95-5) so that an auditor’s opinion on a “prescribed or permitted” basis could continue until codification was completed. SOP 95-5 states “The codification is expected to result in a hierarchy of statutory accounting practices that will provide a comprehensive basis of accounting that can be applied consistently to all insurance enterprises.” At that time, it was believed that once Codification was effective, in order for certified public accountants (CPAs) to issue opinions on statutory statements, SAP had to be considered an “Other Comprehensive Basis of Accounting” (OCBOA) by the American Institute of Certified Public Accountants (AICPA).

19. Codification is not intended to preempt state legislative and regulatory authority. While Codification is expected to be the foundation of a state's statutory accounting practices, it may be subject to modification by practices prescribed or permitted by a state's insurance commissioner. Statutory financial statements will continue to be prepared on the basis of accounting practices prescribed or permitted by the states. As a result, in 1998 the AICPA's Insurance Companies Committee determined that it will not be necessary for the Auditing Standards Board to grant the Codification status as an OCBOA since it will not be the sole basis for preparing statutory financial statements. Further, auditors will be permitted to continue to provide audit opinions on practices prescribed or permitted by the insurance department of the state of domicile.

VII. Relationship to GAAP

50. As expressed in the Statement of Concepts, SAP utilizes the framework established by GAAP. This Manual integrates that framework with objectives exclusive to statutory accounting. The NAIC's guidance on SAP is comprehensive for those principles that differ from GAAP based on the concepts of statutory accounting outlined herein. GAAP guidance that is not applicable to insurance companies will not be adopted by the NAIC. For those principles that do not differ from GAAP, the NAIC may specifically adopt GAAP guidance to be included in statutory accounting. Elements of the FASB Codification do not become part of SAP until and unless adopted by the NAIC. Future SAP pronouncements will specifically identify any element of the FASB Codification that is to be included in SAP whether in whole, in part, or with modification as well as any rejected GAAP guidance. GAAP guidance which SAP has not yet addressed shall not be considered as providing authoritative statutory guidance.

INT 04-01 Discussion

5. The working group reached a consensus that consistent with the above quotes from the Preamble that new GAAP pronouncements do not become part of NAIC Statutory Accounting Principles until and unless adopted by the NAIC. Therefore, the answer to Issue 1 is no. The answer to Issue 2 is moot.

INT 04-01 Status

6. No further discussion is planned.