

Interpretation of the Emerging Accounting Issues Working Group

INT 01-22: Use of Interim Financial Statements in Computing Reporting Entity's Investment in Subsidiary Under the GAAP Equity Method

ISSUE NULLIFIED BY SSAP NO. 88

INT 01-22 Dates Discussed

March 26, 2001; June 11, 2001

INT 01-22 References

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

INT 01-22 Issue

1. A reporting entity records its investment in subsidiary utilizing the GAAP equity method. Both the reporting entity and the subsidiary have December 31 year ends; however, the subsidiary's December 31 financial statements are not completed in time for the reporting entity to use those financial statements to compute its value of its investment in subsidiary. The reporting entity has historically used the subsidiary's unaudited GAAP September 30 financial statements to compute their ownership at December 31, and the subsidiary's audited GAAP December 31 financial statements to compute their ownership at March 31, so that the lag in reporting is consistent from period to period.

2. The accounting issue is does the reporting entity need to require that the subsidiary's September 30 financial statements be audited in order to comply with the requirement in SSAP No. 46, paragraph 7.b. iii?

INT 01-22 Discussion

3. The working group reached a consensus that a reporting entity does not need to require the subsidiary's interim financial statements to undergo audit. However, the subsidiary's financial statements must be audited on an annual basis, and any audit adjustments resulting in a change in the reporting entity's value of its investment in the subsidiary shall be reflected in the reporting entity's financial statements immediately upon receipt of the audit report. The change shall be included in the reporting entity's unrealized gain/loss account. Due to the lag in reporting, the reporting entity may continue to use unaudited GAAP financial statements to compute its investment in subsidiary value for its June, September and December statutory financial statements.

INT 01-22 Status

4. No further discussion planned.