

## Interpretation of the Emerging Accounting Issues Working Group

### INT 02-04: Recognition of CARVM and CRVM Expense Allowances by the Assuming Reinsurer in a Modified Coinsurance Agreement

#### ISSUE NULLIFIED BY SSAP NO. 61

##### INT 02-04 Dates Discussed

December 10, 2001; March 18, 2002

##### INT 02-04 References

*SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* (SSAP No. 61)

##### INT 02-04 Issue

1. Under a Modified Coinsurance agreement, the ceding insurer retains the reserves subject to reinsurance as well as the assets supporting those reserves. When the reinsured retains assets in excess of the assets needed to support the reserves, such excess is payable to the assuming company. This typically occurs with modified coinsurance of separate accounts business when reserves are carried on a modified basis such as commissioners' reserve valuation method (CRVM) or commissioners' annuity reserve valuation method (CARVM). The assets covering the excess of the reserves on a full, unmodified basis over the modified basis reserves, referred to as CARVM, CRVM or modification reserve expense allowances, are retained by the ceding company and payable to the assuming company.
2. Under statutory accounting, an insurer's modification reserve expense allowances (surplus) held in its separate accounts are transferred from separate accounts to the general account by means of a transfer payable/receivable with changes in the transferred amount recorded in the income statement. The transfer payable/receivable related to the expense allowances is reduced over time as fees are collected and the expense allowances diminish to zero.
3. All separate account reinsurance transactions, however, are recorded in or through the general account and not in the separate accounts. Assets or the funds held in separate accounts are net of reinsurance transactions to the extent that funds are moved into or out of separate accounts by the reinsurance.
4. The issue is how the assuming reinsurer should account for the CRVM/CARVM expense allowances belonging to the assuming company when the ceding company holds the assets supporting the full account balance (prior to modification for CRVM/CARVM expense allowances) in its separate accounts.

##### INT 02-04 Discussion

5. The working group reached a consensus that the assuming company records the CRVM/CARVM expense allowances in Page 3, Line 13, "Transfers to Separate Accounts due or accrued (net)" and includes them in the caption disclosure: "Including \$\_\_\_\_\_, accrued for expense allowances recognized in reserves net of reinsurance". Period changes are recorded in the Summary of Operations, Line 26, "Net transfers to or (from) Separate Accounts".

**INT 02-04 Status**

6. No further discussion planned.