

Interpretation of the Emerging Accounting Issues Working Group

INT 00-12: EITF 99-4: Accounting for Stock Received from the Demutualization of a Mutual Insurance Company

ISSUE NULLIFIED BY SSAP NO. 72

INT 00-12 Dates Discussed

March 13, 2000; June 12, 2000

INT 00-12 References

SSAP No. 21—Other Admitted Assets (SSAP No. 21)

SSAP No. 28—Nonmonetary Transactions (SSAP No. 28)

SSAP No. 95—Exchange of Nonmonetary Assets, A Replacement of SSAP No. 28—Nonmonetary Transactions (SSAP No. 95)

INT 00-12 Issue

1. Several mutual insurance companies have recently undergone demutualization transactions and converted to stock enterprises. Others are expected to demutualize over the next few years. In order to effect a demutualization, a company may be required to issue consideration, often in the form of stock, to existing participating policyholders in exchange for their current membership interests. The receipt of such stock has no direct effect on the policyholders' contractual interests of their insurance policies (for example, it does not alter the cash surrender value of their life insurance policies). However, the governance of the mutual insurance company and, in particular, the participating policyholders' interest in that governance are modified.

2. The issue is how the receipt of stock from a demutualization should be accounted for.

INT 00-12 Discussion

3. The working group reached a consensus that stock received from a demutualization should be accounted for at fair value with a gain recognized in income from continuing operations.

INT 00-12 Status

4. No further discussion is planned.