

## Interpretation of the Emerging Accounting Issues Working Group

### INT 02-01: Disclosure Requirements Under SSAP for Differences Between A-785 and Individual State Requirements as a Result of September 11<sup>th</sup>

#### GUIDANCE DETERMINED TO BE NO LONGER RELEVANT

#### INT 02-01 Dates Discussed

December 10, 2001; March 18, 2002

#### INT 02-01 References

*SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures* (SSAP No. 1)

*SSAP No. 62R—Property and Casualty Reinsurance* (SSAP No. 62R)

*Appendix A-785—Credit for Reinsurance (A-785)*

#### INT 02-01 Issue

1. SSAP No. 1 requires disclosure when a state of domicile permitted or prescribed practices differs from NAIC statutory accounting practices and procedures. As a result of the events of September 11<sup>th</sup> and the related insurance and reinsurance claims, some states are allowing US insurers to take credit for reinsurance ceded to an alien reinsurer when its trust account provides less than 100% collateralization at December 31, 2001. The provisions for taking credit under reinsurance contracts are provided in A-785.

2. The accounting issue is whether the action taken by some states to allow US insurers to take credit for reinsurance ceded to alien insurers when the trust account provides less than 100% collateralization is a required to be disclosed under paragraph 7 of SSAP No. 1 at December 31, 2001?

#### INT 02-01 Discussion

3. The working group reached a two-fold consensus, which shall only be applied to the narrow fact circumstances described in this interpretation. First, the provisions of A-785 do not provide specific guidance as to the timing of trust funding and therefore the underlying trust deed must be studied in order to determine compliance with paragraph 11.c.ii.(a)(1) of A-785. Traditionally, the underlying trust deed allows for assets to be contributed to the fund within a certain number of days after the liabilities attributable to business ceded by US domiciled ceding insurers has been determined. An insurer would be allowed to take credit for those liabilities ceded to the unauthorized alien insurer so long the conditions of the underlying trust deed are being met. The determination as to compliance with the conditions contained within the trust deed shall be determined by the consultation with the primary state regulator of the trust deed.

4. Second, if a state directs an entity not to take credit for reinsurance ceded to an unauthorized alien reinsurer when its trust account may be less than fully funded, but it has been determined by the domiciliary regulator and the NAIC that substantial compliance with the conditions of the underlying trust agreement has been achieved, the entity must disclose the surplus impact on its financial statements under SSAP No. 1. The working group does not believe that taking credit under A-785 when the trust account is less than 100% collateralized but the

timing provisions of the underlying trust agreement are being substantially complied with is a departure from NAIC statutory accounting practices and procedures.

**INT 02-01 Status**

5. No further discussion is planned.