

## Interpretation of the Emerging Accounting Issues Working Group

### INT 03-03: Admissibility of Investments Recorded Based on the Audited GAAP Equity of the Investee when a Qualified Opinion is Provided

#### ISSUE NULLIFIED BY SSAP NO. 97

#### INT 03-03 Dates Discussed

March 9, 2003; June 22, 2003; September 14, 2003; December 7, 2003, December 2, 2007

#### INT 03-03 References

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

*SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* (SSAP No. 48)

*SSAP No. 88—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 46* (SSAP No. 88)

*SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88* (SSAP No. 97)

#### INT 03-03 Issue

1. Both SSAP No. 97 and SSAP No. 48 require certain investments to be recorded based on the audited United States generally accepted accounting principles (GAAP) equity of the investee. However, SSAP No. 97 and SSAP No. 48 do not identify whether the audit opinion of the GAAP report used to obtain the underlying GAAP equity of the investee must provide an unqualified opinion.

2. Certain situations may exist in which a qualified opinion is provided due to a GAAP departure, while information is available to determine the appropriate balances under a GAAP basis of accounting. For example, a qualified opinion would be given if a cost sharing agreement requires the cost basis of accounting to be used to value investments in a limited partnership in which the reporting entity owned more than a 5% interest, as GAAP requires such investments to be recorded based upon the GAAP equity method. Since the notes to the financial statements disclose the fair value of investments held by the limited partnership, information is readily available to allocate the unrealized appreciation on investments to determine what the appropriate GAAP equity balance would be. A qualified opinion could also result if the unrealized appreciation on investments is not allocated in accordance with a partnership agreement. Another example occurs when a qualified opinion is issued due to a departure from GAAP and the departure is related to the valuation of an U.S. insurance entity on the basis of U.S. statutory accounting principles.

3. The accounting issue is how should investments that are recorded based on the audited GAAP equity be valued if the underlying equity is obtained from audited GAAP financial statements in which other than an unqualified opinion is provided.

#### INT 03-03 Discussion

4. The working group reached a consensus that the reporting entity shall record investments that require audited GAAP equity in the manner described below when the audit opinion on the GAAP financial statements contains the following language:

- a. The investment shall be nonadmitted if the audit opinion contains a disclaimer of opinion for the most recent statement of financial position presented in the financial statements.
  - b. The investment shall be nonadmitted if the audit opinion contains a qualified opinion due to a scope limitation that impacts the most recent statement of financial position presented in the financial statements and the impact of the scope limitation cannot be quantified. However, if the impact of the scope limitation is quantified in the audited financial statements or the audit opinion, the investment shall be admitted and the reporting entity's valuation of the investment shall be determined based on the GAAP equity of the investee, adjusted to exclude the impact of the quantified scope limitation.
  - c. The investment shall be nonadmitted if the audit opinion contains a qualified opinion due to a departure from GAAP that impacts the most recent statement of financial position presented in the financial statements and the impact of such departure is not quantified in either the auditor's report or the footnotes to the financial statements (see quantification exception related to the valuation of a U.S. insurance entity on the basis of U.S. statutory accounting principles discussed below). However, if the impact of the departure from GAAP is quantified in the audited financial statements or the audit opinion, the investment shall be admitted and the reporting entity's valuation of the investment shall be determined based on the GAAP equity of the investee, adjusted to exclude the impact of the quantified departure from GAAP. There is no need to quantify the impact of a departure from GAAP in either the auditor's report or the footnotes to the financial statements if a qualified audit opinion is issued due to a departure from GAAP and the departure is related to the valuation of an U.S. insurance entity on the basis of U.S. statutory accounting principles. In such cases, the investment shall be admitted without quantifying the departure.
  - d. The investment shall be nonadmitted if the audit opinion contains an adverse opinion due to a departure from GAAP that impacts the most recent statement of financial position presented in the financial statements and the impact of such departure is not quantified in either the auditor's report or the footnotes to the financial statements (see quantification exception related to the valuation of a U.S. insurance entity on the basis of U.S. statutory accounting principles discussed below). However, if the impact of the departure from GAAP is quantified in the audited financial statements or the audit opinion, the investment shall be admitted and the reporting entity's valuation of the investment shall be determined based on the GAAP equity of the investee, adjusted to exclude the impact of the quantified departure from GAAP. There is no need to quantify the impact of a departure from GAAP in either the auditor's report or the footnotes to the financial statements if an adverse audit opinion is issued due to a departure from GAAP and the departure is related to the valuation of an U.S. insurance entity on the basis of U.S. statutory accounting principles. In such cases, the investment shall be admitted without quantifying the departure.
  - e. The investment shall be nonadmitted if the audit opinion contains explanatory language indicating that there is substantial doubt about the investee's ability to continue as a going concern.
5. At its December 2, 2007 meeting, the working group reached a consensus to amend INT 03-03 to state that a departure from GAAP due to the valuation of a U.S. insurance entity on the

basis of U.S. statutory accounting principles is an acceptable departure and need not be quantified for admittance. These changes were incorporated in paragraphs 2 and 4.

**INT 03-03 Status**

6. No further discussion is planned.