

FASB Interpretation No. 15

Note: This Interpretation has been completely superseded

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Translation of Unamortized Policy Acquisition Costs by a Stock Life Insurance Company

an interpretation of FASB Statement No. 8

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Financial Accounting Standards Board
of the Financial Accounting Foundation
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FIN 15: Translation of Unamortized Policy Acquisition Costs by a Stock Life Insurance Company

an interpretation of FASB Statement No. 8

INTRODUCTION

1. The FASB has been requested to clarify the application of *FASB Statement No. 8*, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements," to the translation of the unamortized policy acquisition costs of a foreign stock life insurance company whose foreign currency financial statements are incorporated in the financial statements of an enterprise by consolidation, combination, or the equity method of accounting. Policy acquisition costs include commissions paid to agents for selling policies and other costs that vary with and are primarily related to the production of new business. The following three approaches have been suggested to the Board:

- a. Unamortized policy acquisition costs are deferred charges and should be translated at historical rates. They represent expenses that have been incurred in past transactions that are deferred and amortized in proportion to the related anticipated premium revenue.
- b. Unamortized policy acquisition costs are in the nature of long-term receivables and should be translated at the current rate. They represent past services paid for to receive future premium revenue and are recoverable from those future revenues.
- c. Unamortized policy acquisition costs and the liability for future policy benefits are so interconnected that they both should be translated at the current rate. Unamortized policy acquisition costs are classified on the balance sheet among assets as an accounting convention for separate disclosure but this method of disclosure does not change their fundamental nature of being an integral part of the liability for future policy benefits.

In addition, if unamortized policy acquisition costs are translated at historical rates, the Board has been asked if Statement No. 8 requires that a "reserve deficiency computation" be made in dollars.

2. The FASB has not considered the specialized accounting practices for life insurance companies. Those practices are specified for stock life insurance companies by the AICPA

Industry Audit Guide, "Audits of Stock Life Insurance Companies." That Audit Guide requires that, because of their nature, unamortized policy acquisition costs should be classified as a deferred charge (page 74). The Guide also requires that unamortized policy acquisition costs be included in the computation of a deficiency, if any, in the reserve ¹ applicable to a block of insurance policies; any deficiency is corrected "by a charge to earnings to increase reserves and/or reduce deferred acquisition expense" (page 87).

3. *FASB Statement No. 8* requires that asset and liability balances representing cash and amounts receivable or payable that are denominated in a foreign currency shall be translated into dollars at the current rate. All other asset and liability accounts measured in a foreign currency shall generally be translated in a manner that retains their measurement bases; that is, accounts carried at prices in past exchanges shall be translated at historical rates and accounts carried at prices in current or future exchanges shall be translated at the current rate. The Statement also requires that existing U.S. generally accepted accounting principles be followed and specifies that translation should change only the unit of measure without changing the accounting principles.

INTERPRETATION

4. According to the AICPA Industry Audit Guide, "Audits of Stock Life Insurance Companies," unamortized policy acquisition costs of a stock life insurance company are deferred charges under present generally accepted accounting principles. Because *FASB Statement No. 8* relies on generally accepted accounting principles, which for stock life insurance companies are set forth in the Audit Guide, those costs shall be translated at historical rates.

5. Present generally accepted accounting principles require that a stock life insurance company recognize a loss represented by a reserve deficiency as a charge to current earnings (see paragraph 2 above). *FASB Statement No. 8* requires that the dollar financial statements be in conformity with generally accepted accounting principles. Accordingly, computation of a reserve deficiency shall be made *in dollars* after translation of the unamortized policy acquisition costs at historical rates and the liability for future policy benefits at the current rate. Computation of a reserve deficiency *in dollars* may require a charge (or an increased charge) to current earnings in the dollar statements for a reserve deficiency even though no such charge is required in the foreign statements. It may also require a charge to current earnings in the foreign statements to be reversed in whole or in part in preparing the dollar statements if the translated charge to current earnings exceeds the reserve deficiency computed in dollars. (See paragraph 14 of Statement No. 8.)

EFFECTIVE DATE AND TRANSITION

6. This Interpretation shall be effective for all unamortized policy acquisition costs reported in financial statements for annual and interim periods ending after December 15, 1976, except that it shall not be applied prior to initial application of *FASB Statement No. 8*. Earlier application is encouraged in financial statements for annual and interim periods ending before December 16, 1976 that have not been previously issued. If initially applied concurrently with the initial application of *FASB Statement No. 8*, this Interpretation shall be applied in the same manner as the initial application of that Statement. Enterprises that have adopted Statement No. 8 prior to the effective date of this Interpretation and that have reported unamortized policy acquisition costs differently from the requirements of this Interpretation are encouraged to apply this Interpretation in the same manner as they initially applied Statement No. 8 (see paragraphs 35 and 36 of the Statement), but if they choose not to do so, those enterprises shall report the cumulative effect of applying this Interpretation in the year that it is adopted in the manner required by *APB Opinion No. 20*, "Accounting Changes," and *FASB Statement No. 3*, "Reporting Accounting Changes in Interim Financial Statements."

This Interpretation was adopted by the unanimous vote of the six members of the Financial Accounting Standards Board following submission to the members of the Financial Accounting Standards Advisory Council.

Marshall S. Armstrong, *Chairman*
Oscar S. Gellein
Donald J. Kirk
Arthur L. Litke
Robert E. Mays
Robert T. Sprouse

Footnotes

FIN15, Footnote 1--The Audit Guide uses the term "reserve" to describe the actuarially determined liability for future benefits on insurance policies in force. Because that term has a special meaning in the insurance industry, it is also used in this Interpretation in referring to that *liability*.