FASB Emerging Issues Task Force

Issue No. 09-B

Title: Consideration of an Insurer's Accounting for Majority-Owned Investments When Ownership Is through a Separate Account

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References:

FASB Accounting Standards Codification Topic 320, *Investments – Debt and Equity Securities* (Topic 320)

FASB Accounting Standards Codification Topic 810, *Consolidation* (Topic 810)

FASB Accounting Standards Codification Topic 944, *Financial Services – Insurance* (Topic 944)

FASB Accounting Standards Codification Topic 946, *Financial Services – Investment Companies* (Topic 946)

FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* (currently under Topic 944) (Statement 60)

FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (currently under Topic 320) (Statement 115)

FASB Statement No. 154, *Accounting Changes and Error Corrections* (currently under Topic 250) (Statement 154)

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* **The alternative views presented in this Issue Summary are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination.**

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (currently under Topic 810) (Statement 160)

FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (currently under Topic 810) (Statement 167)

FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (currently under Topic 810) (Interpretation 46(R))

AICPA Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (currently under Topic 810) (ARB 51)

AICPA Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* (currently under Topic 944) (SOP 03-1)

AICPA Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (currently under Topic 946) (SOP 07-1)

AICPA Audit and Accounting Guide, *Investment Companies* (currently under Topic 946) (Investment Company Guide)

SEC Regulation S-X, Rule 6-03(c)(1)(i)

EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation* (currently under Topic 810) (Issue 85-12)

Background

1. Life insurance entities offer certain products that provide an investment return and, in some cases, insure mortality risk. In some instances, the entire investment return risk is passed on to the contract holder. In other instances, the insurance entity may also guarantee a minimum return to the contract holder. In either case, the contract holders direct the allocation of their deposits to various investment options and the insurance entity receives an asset management fee. To facilitate this passing on of investment return risk, a "separate account" will be established by the insurance entity. A separate account arrangement legally isolates the assets of the contract holder from the assets of the insurance entity (the assets of the insurance entity are commonly referred to as the general account). Among other things, this structure protects contract holders with separate accounts from the general creditors of the insurance entity should the insurance entity become insolvent. While the insurance entity cannot make allocation decisions, the insurance entity does hold title to the investments in a separate account and generally has certain rights associated with the investments (such as the ability to vote on behalf of the contract holder). A process diagram of a typical separate account arrangement is included as Appendix 09-BA.

2. An insurance entity often will provide the seed money to start a separate account. As more and more contract holders make investments (which often effectively include interest(s) in one or more separate accounts), the insurance entity's proportionate ownership interest in the separate account diminishes. Separate accounts operate similar to a mutual fund and invest in assets that match the investment objective of the separate account fund offering, including individual securities, real estate, and mutual funds. An insurance entity may also separately invest in the same investments through its general account.

3. Accounting guidance for separate accounts is provided in Topic 944. This topic requires that separate account assets and liabilities be included in the financial statements of the insurance entity that owns the assets and is contractually obligated to pay the liabilities. Paragraph 944-80-25-3 requires that the portion of separate account assets representing contract holder funds be measured at fair value and reported in the insurance entity's financial statements as a summary

total, with an equivalent summary total reported for related liabilities, if all of the following criteria are met:

> a. The separate account is legally recognized. That is, the separate account is established, approved, and regulated under special rules such as state insurance laws, federal securities laws, or similar foreign laws.
>
> b. The separate account assets supporting the contract liabilities are legally insulated from the general account liabilities of the insurance entity (that is, the contract holder is not subject to insurer default risk to the extent of the assets held in the separate account).
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> c. The insurer must, as a result of contractual, statutory, or regulatory requirements, invest the contract holder's funds within the separate account as directed by the contract holder in designated investment alternatives or in accordance with specific investment objectives or policies.
>
> d. All investment performance, net of contract fees and assessments, must, as a result of contractual, statutory, or regulatory requirements, be passed through to the individual contract holder. Contracts may specify conditions under which there may be a minimum guarantee, but not a ceiling, as a ceiling would prohibit all investment performance from being passed through to the contract holder.

4. Additionally, if the above criteria are met, the related investment performance and amount credited to the contract holder is netted to zero in the same statement of operations line item.

5. If a separate account arrangement does not meet the above criteria, any assets representing contract holder funds under the arrangement must be accounted for (measured and presented) in the same manner as other general account assets of the insurance entity. Any related liability must be accounted for as a general account liability.

6. Assets underlying an insurance entity's proportionate interest in a separate account (seed money or other investment) do not represent contract holder funds, and thus do not qualify for summarized reporting. Paragraph 944-80-25-7 generally requires that the insurance entity "look through" the separate account for purposes of accounting for its interest therein, and account for and classify the assets of the separate account underlying that interest based on their nature as if the assets of the separate account underlying the insurance entity's proportionate interest were

held directly by the general account rather than through the separate account structure. Said differently, the insurance entity should account for, value, and report its proportional beneficial interest in the underlying separate account assets in a manner consistent with the accounting for similar assets held by the general account (for example, if a separate account holds investments in real estate and mutual funds, the insurance entity would account for its proportionate interest in the individual investments as if the insurance entity directly held those investments). Section 944-80-55 provides guidance for presenting an insurance entity's proportionate interest in separate accounts in the financial statements and is included for reference purposes at Appendix 09-BB of this Issue Summary.

7. An insurance entity may hold a majority interest in a mutual fund through a separate account investment (that is, a separate account's investment in a mutual fund) or through a combination of a separate account investment and a general account investment. There is no specific discussion in Topic 944 regarding the accounting for situations in which an insurance entity has a majority interest in a mutual fund through a separate account or through a combination of separate account and general account investments. As noted above, paragraph 944-80-25-7 does require that the insurance entity's proportionate interest in a separate account be accounted for by looking through the separate account to the underlying investments.

8. Certain separate accounts must produce separate standalone financial statements (for example, registered separate accounts must file annual audited financial statements with the SEC). Standalone financial statements of separate accounts are within the scope of Topic 946. In accordance with paragraph 946-810-45-2, consolidation or use of the equity method by an investment company of a non-investment company investee is not permitted. SEC Regulation S-X, Rule 6-03(c)(1)(i) indicates that statements of the registrant may only be consolidated with statements of subsidiaries that are investment companies. Neither the Investment Company Guide nor Rule 6-03 indicates that consolidation of investment company investees is required. Therefore, in practice, if a separate account holds a majority interest in a mutual fund, the separate account generally has not consolidated the mutual fund in its standalone financial statements. Instead, the separate account reflects its ownership of the fund in its standalone

financial statements similar to a master-feeder fund or funds of funds in accordance with the Investment Company Guide.

9. Paragraph 810-10-25-15 provides guidance on how a parent should account for the consolidation of a subsidiary when that subsidiary applies specialized accounting principles. This guidance states that assuming the specialized industry accounting principles are appropriate at the subsidiary level, those principles should be retained in consolidation. Accordingly, if the separate account was in a legal entity, the insurer would apply this guidance and not consolidate the mutual fund. However, because a separate account is not a separate legal entity, it is not clear whether this guidance applies to separate accounts.

10. In most cases, insurers have not consolidated the mutual fund based on an analogy to the specialized investment company guidance discussed above. With the issuance of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (and its inclusion in the Codification as Topic 810), questions have arisen about whether this accounting is appropriate and how a noncontrolling interest in the mutual fund should be presented in the insurer's financial statements if the mutual fund were to be consolidated. It is also not clear whether the insurer should combine its general account interest with the separate account interest when assessing whether the insurer has control over the mutual fund.

Scope

11. This Issue applies to insurance entities that hold a majority-owned investment in a mutual fund through a separate account or that hold a combination of investments through their separate and general accounts.

Accounting Issues and Alternatives

Issue 1: How an insurer should account for a majority-owned investment in a mutual fund when an insurer's separate account holds the majority ownership interest.

View A: The insurer should consolidate the investment.

12. Proponents of View A believe that Topic 810 is clear that all entities in which a parent has a controlling financial interest must be consolidated. While the insurance entity cannot make allocation decisions, the insurance entity does hold title to the investments in a separate account and generally has certain rights associated with the investments (such as the ability to vote on behalf of the contract holder). A separate account is not a distinct legal entity, but rather a contractual construct created by the insurance entity that owns 100 percent of the assets of the separate account. Therefore, if a separate account holds a majority interest in a mutual fund, the insurance entity should consolidate the mutual fund.

13. Proponents of View A do not believe that the analogy to consolidation guidance for subsidiaries applying specialized accounting principles for separate accounts is appropriate. View A supporters cite a portion of Section 944-80-55 as support for this view. The example in paragraph 944-80-55-7 illustrates how an insurer should present separate account investments and activity in the insurer's financial statements and states the following:

> If Subaccount XYZ owns more than fifty percent of the outstanding shares of a mutual fund, the accounting and classification of the items included in the column titled "Separate Account at General Account Value" would reflect consolidating the mutual fund into Subaccount XYZ.

14. Proponents of View A believe that this example indicates that AcSEC was acknowledging that the mutual fund should be consolidated. They do not believe that Statement 160 modified this assessment; however, they acknowledge that the accounting for the noncontrolling interest of the mutual fund is not clear from the example and that it is also not clear how the presentation and accounting for the noncontrolling interest would be affected by Statement 160. View A proponents also acknowledge that because of the potential for various ownership and voting interests, some consolidation scenarios may be complex.

15. Opponents of View A believe that specialized investment company accounting rules followed by separate accounts should be carried forward in consolidation and that the unique features of separate account arrangements warrant presentation distinct from an insurance entity's other assets and liabilities. View A opponents believe that including assets owned through a noncontrolling interest with assets included in the general account would not provide useful

information for the financial statement users and would unnecessarily increase the complexity of an insurer’s financial statements.

View B: The insurer should <u>*not*</u> *consolidate the investment.*

16. Proponents of View B believe that the accounting for the assets within the separate account should be consistent with how those assets would be reported if they were held within a distinct legal entity that was being consolidated by the insurer. Proponents of View B believe that the special industry accounting that applies to investment companies and that is retained in consolidation by non-investment company parents pursuant to Topic 810 should also apply to separate accounts. View B proponents believe that the guidance in Topic 944 and Topic 810 should be modified to allow specialized investment company accounting rules followed by separate accounts to be carried forward in consolidation.

17. Proponents of View B agree with the conclusion reached by AcSEC as discussed in the Basis for Conclusions of SOP 03-1, that the unique features of separate account arrangements warrant presentation distinct from an insurance entity's other assets and liabilities, and that summary account totals in the statement of financial condition and the offsetting of investment performance and corresponding amounts credited to the contract holder provide the most meaningful presentation to the users of the financial statements. AcSEC believed that this presentation allows financial statement users to more readily analyze investment returns of insurance entities by excluding amounts that are legally insulated from the general account and not available to shareholders. View B proponents believe that the same logic should be applied with respect to any assets or residual amounts attributable to noncontrolling interest holders of the separate account. View B proponents do not believe that including assets owned through a noncontrolling interest with assets included in the general account would provide useful information for the financial statement users and would unnecessarily increase the complexity of an insurer’s financial statements.

18. Proponents of View B recognize that this view will generally result in the insurance entity not consolidating the mutual fund because, in practice, separate accounts generally qualify as

investment companies and for purposes of the separate accounts' standalone financial statements, do not consolidate investments in mutual funds when they hold a majority interest. Therefore, under this view, if a separate account owned 60 percent of a mutual fund and the insurance entity did not have any seed money in the separate account, 60 percent of the assets of the mutual fund would be reported at fair value as separate account assets with an offsetting amount reported as a separate account liability. The remaining 40 percent owned by noncontrolling interest holders would not be included in the consolidated financial statements of the insurance entity.

19. View B opponents believe that the accounting for majority interests should not be different because of the presence of a separate account. A separate account is not a distinct legal entity, but rather a contractual construct created by the insurance entity that owns 100 percent of the assets of the separate account. View B opponents also cite similar situations in which an entity may be required to consolidate legal structures that are used to conduct activities and hold assets where the activity is not legally attributable to a parent entity (for example, variable interest entities) as further support for consolidation of a majority-owned interest in a mutual fund despite that ownership being through a separate account.

Issue 1a: If the Task Force concludes that the insurer should consolidate the mutual fund in Issue 1, how the consolidated mutual fund should be reflected in the financial statements of the insurer.

View A: The insurer should consolidate the mutual fund by including 100 percent of the mutual fund assets (excluding the insurance entity's proportionate interest, if any, in the separate account) in the separate account asset and recording a corresponding liability (including the noncontrolling interest) in the separate account liability.

20. Under this view, if a separate account owned 60 percent of a mutual fund and the insurance entity did not have any seed money in the separate account or a direct ownership interest in the same mutual fund, 100 percent of the assets of the mutual fund would be reported at fair value as separate account assets. This interest represents the separate account holder's and noncontrolling interest holder's ownership in the mutual fund. The insurance entity would record a

corresponding separate account liability equal to the fair value of 100 percent of the assets of the mutual fund, representing both the contract holders' and noncontrolling interests. Under this View, the income statement offset continues to be applied and the only impact of consolidating the mutual fund in the separate account is a balance sheet gross up for the noncontrolling interest.

21. Proponents of View A believe that this presentation is consistent with AcSEC's view that separate accounts warrant distinct presentation from an insurance entity's other assets and liabilities. View A proponents believe that including assets owned through a noncontrolling interest with assets included in the general account would not provide useful information for the financial statement user and would unnecessarily increase the complexity of an insurer's financial statements.

22. Opponents of this view believe that consolidating the mutual fund into the separate account and including the noncontrolling interest in the separate account liability is not consistent with the noncontrolling interest guidance in Topic 810 that requires noncontrolling interests to be reported in equity. Therefore, opponents of this view suggest that the consolidation should take place at the parent level and the noncontrolling interest's share of the mutual fund should be included in the insurer's general account and equity. Opponents of View A also highlight the added complexity of consolidating the mutual fund in this manner should the insurance entity have any seed money in the separate account or a direct ownership interest in the same mutual fund and are not aware of any guidance in generally accepted accounting principles that would support including a noncontrolling interest balance in a separate account liability.

View B: The insurer should consolidate the mutual fund by including the proportion of the mutual fund assets representing the contract holder's interests as separate account assets and the remaining mutual fund assets in the general account of the insurer. A corresponding liability for the separate account assets would be established and any noncontrolling interest would be included in the equity of the insurer.

23. Under this view, if a separate account owned 60 percent of a mutual fund and the insurance entity did not have any seed money in the separate account or a direct ownership interest in the same mutual fund, 40 percent of the assets of the mutual fund would be reported in the insurance entity’s general account based on the nature of the assets (for example, debt and equity securities, mortgage loans and real estate) and 60 percent of the assets of the mutual fund would be reported at fair value as separate account assets. The insurance entity would record a corresponding separate account liability equal to the fair value of 60 percent of the assets of the mutual fund and the noncontrolling interest holder’s ownership of the mutual fund would be included in the equity of the insurer.

24. Proponents of View B believe that this presentation is consistent with the noncontrolling interest guidance in Topic 810 that requires noncontrolling interests to be reported in equity. Additionally, proponents of View B believe that this presentation is consistent with the view that separate accounts warrant distinct presentation from an insurance entity's other assets and liabilities as required by Topic 944.

25. Opponents of this view believe that including the noncontrolling interest in the general accounts of the insurers would not provide meaningful information to users and would unnecessarily increase the complexity of an insurer’s financial statements.

View C: Consolidate the mutual fund in the general account of the insurer and amend Topic 944 such that a consolidated investment does not qualify for inclusion in the separate account assets of the insurer.

26. Under this view, if a separate account owned 60 percent of a mutual fund and the insurance entity did not have any seed money in the separate account or a direct ownership interest in the same mutual fund, 100 percent of the assets of the mutual fund would be reported in the insurance entity's general account based on the nature of the assets (for example, debt and equity securities, mortgage loans and real estate). The insurance entity would record the noncontrolling interest in equity and the separate account’s interest in the mutual fund would be shown as a liability in the general account of the insurer.

27. Proponents of View C believe that this view will reduce the complexity associated with splitting the assets of a mutual fund between the separate account and the general account, and be more aligned with the accounting for other consolidated subsidiaries.

28. Opponents of View C believe that this view will not provide meaningful information to users. Opponents views are consistent with AcSEC's conclusion in SOP 03-1 that the unique features of separate account arrangements warrant presentation distinct from an insurance entity's other assets and liabilities, and that summary account totals in the statement of financial condition and the offsetting of investment performance and corresponding amounts credited to the contract holder provide the most meaningful presentation to the users of the financial statements. These opponents do not believe the noncontrolling interests to be substantially different from a separate account's interest for these purposes.

Issue 2: How an insurer should account for a majority-owned investment in a mutual fund when majority ownership is through a combination of interests held by its separate and general accounts, but neither the separate account nor the general account individually has a majority interest.

View A: The insurer should consolidate the investment.

29. Proponents of View A believe that a scenario in which an insurer has a majority-owned investment through a combination of investments of its general and separate accounts is no different from a scenario in which the majority-owned investment is through the separate account, as discussed in Issue 1. Thus, proponents of View A believe that all entities in which a parent has a controlling financial interest must be consolidated, which would include a controlling interest through a combination of both the general and separate accounts of the insurer. While the insurance entity can only make allocation decisions based on its general account investments and not for the separate account, the insurance entity does hold title to the investments in both accounts and generally has certain rights associated with the separate account investments (such as the ability to vote on behalf of the contract holder). Therefore,

proponents of View A believe that the insurer's combined interest in the mutual fund along with the fact that the insurer votes the ownership interest of both the general and separate accounts indicate that the insurer effectively controls the mutual fund and should consolidate it accordingly.

30. Proponents of View A also cite the views supporting consolidation held by View A proponents in Issue 1 as additional support for consolidating a majority-owned investment created by a combination of investments through its general and separate accounts.

31. Opponents of View A believe that the ownership interests held in the general and separate accounts should be viewed independently and that the unique features of separate account arrangements warrant presentation distinct from an insurance entity's other assets and liabilities. View A opponents believe that including assets owned through a noncontrolling interest with assets included in the general account would not provide useful information for the financial statement users and would unnecessarily increase the complexity of an insurer's financial statements.

View B: The insurer should not consolidate the investment.

32. Proponents of View B believe that the ownership interests held in the general and separate accounts should be viewed independently and that the unique features of separate account arrangements warrant presentation distinct from an insurance entity's other assets and liabilities. For example, View B proponents highlight that an insurer has a fiduciary duty to vote shares in the best interest of contract holders of the separate account, which may be different than how the insurer votes shares held directly in its general account. View B proponents also believe that distinct presentation of separate accounts is consistent with the conclusion reached by AcSEC as discussed in the Basis for Conclusions of SOP 03-1. AcSEC concluded that the unique features of separate account arrangements warrant presentation distinct from an insurance entity's other assets and liabilities, and that summary account totals in the statement of financial condition and the offsetting of investment performance and corresponding amounts credited to the contract holder provide the most meaningful presentation to the users of the financial statements. AcSEC

believed that this presentation allows financial statement users to more readily analyze investment returns of insurance entities by excluding amounts that are legally insulated from the general account and not available to shareholders. View B proponents believe that the same logic should be applied with respect to any assets or residual amounts attributable to noncontrolling interest holders of the separate account.

33. View B proponents believe that including assets owned through a noncontrolling interest with assets included in the general account would not provide useful information for the financial statement user and would unnecessarily increase the complexity of an insurer's financial statements.

34. View B opponents believe that the accounting for majority interests should not be different because of the presence of a separate account. View B opponents also believe that not consolidating the mutual fund could be misleading to users of the financial statements and inconsistent with the consolidation guidance in Topic 810. For example, although relatively rare in practice, a situation could arise in which an insurance entity holds a 40 percent direct interest in a mutual fund and its separate account holds a 45 percent interest in the same mutual fund. Opponents of View B believe that it would be misleading not to consolidate the mutual fund in that scenario because these opponents believe that the insurer effectively controls the mutual fund through the combined ownership interest and should consolidate it accordingly.

Issue 2a: If the Task Force concludes that the insurer should consolidate the mutual fund in Issue 2, how the consolidated mutual fund should be reflected in the financial statements of the insurer.

View A: The insurer should consolidate the mutual fund by including 100 percent of the mutual fund assets (excluding the insurance entity's proportionate interest, if any, in the separate account) in the separate account asset and recording a corresponding liability (including the noncontrolling interest) in the separate account liability.

35. Under this view, if a separate account owned 45 percent of a mutual fund and the insurance entity's general account included a 10 percent direct investment in the same mutual fund, 90 percent of the assets of the mutual fund would be reported at fair value as separate account assets. This 90 percent interest represents the separate account holder's and noncontrolling interest holder's ownership in the mutual fund. The insurance entity would record a corresponding separate account liability equal to the fair value of 90 percent of the assets of the mutual fund. The insurer's general account would continue to show its 10 percent proportional share of the assets of the mutual fund at fair value or amortized cost, as appropriate.

36. Proponents of View A believe that this presentation is consistent with AcSEC's view that separate accounts warrant distinct presentation from an insurance entity's other assets and liabilities. Thus, View A proponents believe that including assets owned through a noncontrolling interest with assets included in the general account would not provide useful information for the financial statement user and would unnecessarily increase the complexity of an insurer's financial statements.

37. Opponents of this view believe that consolidating the mutual fund into the separate account and including the noncontrolling interest in the separate account liability is not consistent with the noncontrolling interest guidance in Topic 810 that requires noncontrolling interests to be reported in equity. Therefore, opponents of this view suggest that the consolidation should take place at the parent level and the noncontrolling interest's share of the mutual fund should be included in the insurer's general account and equity. Opponents of View A are not aware of any guidance in generally accepted accounting principles that would support including a noncontrolling interest balance in a separate account liability.

View B: The insurer should consolidate the mutual fund by including the proportion of the mutual fund assets representing the contract holder's interests as separate account assets and the remaining mutual fund assets in the general account of the insurer. A corresponding liability for the separate account assets would be established and any noncontrolling interest would be included in the equity of the insurer.

38. Under this view, if a separate account owned 45 percent of a mutual fund and the insurance entity's general account included a 10 percent direct investment in the same mutual fund, 45 percent of the assets of the mutual fund would be reported at fair value as separate account assets. The insurance entity would record a corresponding separate account liability equal to the fair value of 45 percent of the assets of the mutual fund. The insurer's general account would show its 10 percent proportional share and the noncontrolling interest holder's 45 percent interest in the assets of the mutual fund at fair value or amortized cost, as appropriate. The noncontrolling interest would be included in the equity of the insurer.

39. Proponents of View B believe that this presentation is consistent with the noncontrolling interest guidance in Topic 810 that requires noncontrolling interests to be reported in equity. Additionally, proponents of View B believe this presentation is consistent with the view that separate accounts warrant distinct presentation from an insurance entity's other assets and liabilities as required by SOP 03-1.

40. Opponents of this view believe that including the noncontrolling interest in the general accounts of the insurers would not provide meaningful information to users and would unnecessarily increase the complexity of an insurer's financial statements.

View C: Consolidate the mutual fund in the general account of the insurer and amend Topic 944 such that a consolidated investment does not qualify for inclusion in the separate account assets of the insurer.

41. Under this view, if a separate account owned 45 percent of a mutual fund and the insurance entity's general account included a 10 percent direct investment in the same mutual fund, 100 percent of the assets of the mutual fund would be reported in the insurance entity's general account based on the nature of the assets (for example, equity securities and real estate). The insurance entity would record the noncontrolling interest in equity and the separate account's interest in the mutual fund would be shown as a liability in the general account of the insurer.

42. Proponents of View C believe that this view will reduce the complexity associated with splitting the assets of a mutual fund between the separate account and the general account, and be more aligned with the accounting for other consolidated subsidiaries.

43. Opponents of View C believe that this view will not provide meaningful information to users. This is consistent with AcSEC's conclusion in SOP 03-1 that the unique features of separate account arrangements warrant presentation distinct from an insurance entity's other assets and liabilities, and that summary account totals in the statement of financial condition and the offsetting of investment performance and corresponding amounts credited to the contract holder provide the most meaningful presentation to the users of the financial statements. These opponents do not believe the noncontrolling interests to be substantially different than a separate account's interest for these purposes.

Disclosures

44. The disclosure requirements of Topic 944 are included in paragraph 47 of this Issue Summary. If the Task Force concludes that View A of Issue 1 or Issue 2 is appropriate (that is, to consolidate the mutual fund), the FASB staff recommends that the following disclosures should be required in addition to those already required by Topic 944:

a. The carrying amounts and classification of the assets and liabilities in the insurance entity's statement of financial position that relate to contract holder investments.
b. The carrying amounts and classification of the assets in the insurance entity's statement of financial position that relate to noncontrolling interest holder's investments.

45. The staff believes that these disclosures will provide users with a better understanding of the contract holder investments and noncontrolling interests included in the general accounts of the insurance entity and reduce the complexity of the insurer's financial statements.

46. If the Task Force concludes that View B of Issue 1 and View B to Issue 2 are appropriate and specialized accounting rules can apply (that is, not consolidate the mutual fund), then no additional disclosures would be required since there is likely no change in accounting for those arrangements from current practice.

47. Among other disclosures related to separate accounts not relevant to this Issue, paragraph 944-80-50-1 requires the following information to be disclosed in the financial statements of the insurance entity related to separate accounts:

a. The general nature of the contracts reported in separate accounts, including the extent and terms of minimum guarantees.
b. The basis of presentation for separate account assets and liabilities and related separate account activity.
c. A description of the liability valuation methods and assumptions used in estimating the liabilities for additional insurance benefits and minimum guarantees.
d. The aggregate fair value of assets, by major investment asset category, supporting separate accounts with additional insurance benefits and minimum investment return guarantees as of each date for which a statement of financial position is presented.

International Convergence

48. There is no detailed guidance within IFRS for Issues 1–2.

Interaction with Other Board Agenda Projects

49. This Issue is does not appear to be within the scope of any other FASB projects.

Transition and Effective Date

50. The staff believes that if the insurer is required to consolidate a mutual fund as a result of the initial application of this consensus, the insurer shall initially measure the assets, liabilities, and noncontrolling interests at their carrying amounts at the date of a final Accounting Standards Update to the Codification. In this context, *carrying amounts* refers to the amounts at which the assets, liabilities, and noncontrolling interests would have been carried in the consolidated financial statements of the insurer if the consensus had been effective when the insurance entity obtained a controlling interest (whether through its separate account, general account, or a combination of both) of the mutual fund. If determining the carrying amounts is not practicable, the assets, liabilities, and noncontrolling interests of the mutual fund shall be measured at fair value at the date that this consensus first applies. The proposed accounting for this transition is

consistent with the transition guidance in Statement 167 and the FASB staff believes that this Issue is analogous to the transition conclusion of that standard.

51. If the Task Force concludes that the measurement guidance in the previous paragraph is appropriate, the Task Force is being asked to consider whether the application of this consensus should only apply to investments outstanding as of the date of adoption or whether it should apply to all prior periods. If the consensus is only applied to investments outstanding as of the date of adoption, any difference between the net amounts added to the balance sheet of the insurer shall be recognized as a cumulative effect adjustment to retained earnings.

View A: The consensus would be applied to outstanding investments where an insurance entity has a controlling interest of a mutual fund as of the date of adoption.

52. Proponents of View A believe that this transition would reduce the costs and complexities associated with identifying and measuring historical carrying amounts of assets, particularly in cases where the insurer no longer has a majority-ownership stake.

View B: The consensus would be applied retrospectively to all prior periods, consistent with the requirements of 250-10-45-5.

53. Under View B, retrospective application to earlier periods would be required. Proponents of View B believe that this transition method would provide users with the benefit of consistency and comparability between all periods.

54. The disclosure requirements in 250-10-50-1 through 250-10-50-3 would be required under both View A and View B.

55. The Task Force is being asked to consider whether early adoption should be permitted. The FASB staff recommends that early adoption should not be permitted as it may reduce the

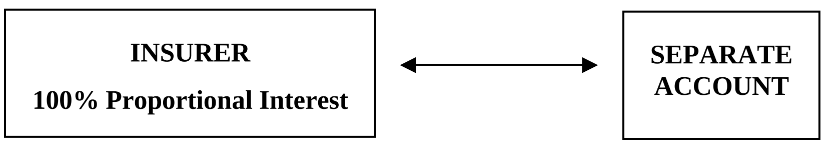
comparability between different reporting entities. The staff also recommends that the consensus reached in this Issue should be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010, to allow prepares sufficient time to implement the requirements of the consensus.

Appendix 09-BA

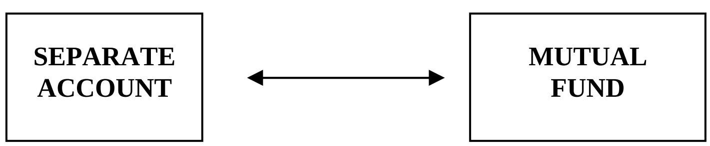
SEPARATE ACCOUNT ARRANGEMENT PROCESS DIAGRAM

The following process diagram is a sequential illustration of a typical separate account arrangement. The purpose of the separate account is to legally isolate the assets of the contract holder from the assets of the insurance entity (that is, the general account) and to invest contract holder deposits based on their stated investment objectives.

Step 1 – An insurance entity will establish a separate account by initially funding the separate account with seed money. This seed money represents the insurance entity's proportionate interest in the separate account. Upon inception, the insurer's proportionate interest in the separate account is 100 percent.

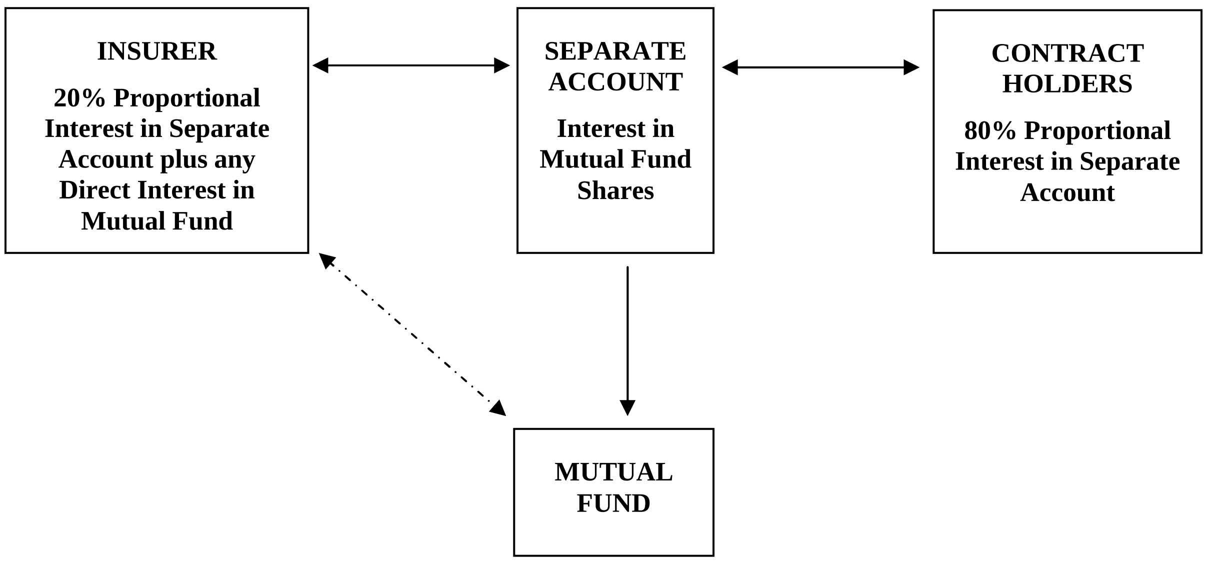


Step 2 – To establish an investment performance record, the separate account makes an investment in a mutual fund or other investments based on the stated investment objectives of the separate account. In some cases, the mutual fund has been established by the insurance entity.



Step 3 – Contract holders make deposits with the insurer and direct the funds to be allocated to an investment alternative that is in the separate account based on their investment objective. As contract holder funds are deposited, the insurance entity withdraws the seed money by selling their interest to the contract holders. In doing so, the insurance entity effectively reduces its interest in the separate account (from 100 percent to 20 percent in this example).

Step 4 – The insurance entity earns an asset based fee for asset management and administrative expenses. An insurance entity may also separately invest in the same mutual fund through its general account. The contract holders bear the entire risk of their investments, subject to any minimum guarantees by the insurance entity.



This Issue Summary addresses situations in which insurance entities hold a majority-owned investment in a mutual fund through a separate account, or through a combination of investments by their separate and general accounts.

Appendix 09-BB

APPENDIX B OF TOPIC 944 (ILLUSTRATION OF AN INSURANCE ENTERPRISE'S INTEREST IN A SEPARATE ACCOUNT)

The following example illustrates the presentation in the financial statements of an insurance enterprise's proportionate interest in separate accounts and is provided for reference purposes. In this example, the insurance enterprise has a 10 percent interest in the separate account that is reflected in its general account.

Investment	*Separate Account at Fair Value*	*Separate Account at General Account Value*[1]	*Insurer's Interest*	*Proportionate Interest*[2]
Debt securities	400	400	10%	40
Equity securities	300	300	10%	30
Mortgage loans	250	200	10%	20
Real estate	130	100	10%	10
Total assets	$1,080	$1,000	10%	$100

[1] Underlying investments valued in a manner similar to any other general account asset as prescribed in Topic. For example, mortgage loans and real estate in this example are reported at amortized cost in the general account.
[2] Amounts recognized in the general accounts of the insurer

Balances presented in the insurer's statement of financial condition, would reflect:

Assets:	Debt securities[3]	40
	Equity securities[3]	30
	Mortgage loans	20
	Real estate	10
	Total investments	100
	Separate account—Assets[4]	$972
Liabilities:	Separate account—Liabilities	$972

The applicable disclosures for the insurer's proportionate interest in these specific assets would be included within the applicable disclosures for the general account invested assets.

[3] Debt and equity securities have to be designated as either trading or available-for-sale.
[4] Separate account assets at fair value of $1,080 × 90% (contract holder's proportionate interest).