Valuation of Investments and Subsequent Events

To: Preparers of Statutory Financial Statements
From: Ramon Calderon, Chair of the NAIC Accounting Practices & Procedures Task Force
Date: October 21, 2008
Re: Valuation of Investments and Subsequent Events

Clearly these are difficult times for both preparers of financial statements, who are responsible for the preparation of the financial statements, and users of financial statements, who are dependent upon the information presented in making sound assessments of the reporting entity. The difficulty has certainly increased due to the volatility of prices and the lack of deep and liquid markets for particular investments. The NAIC is aware that these market conditions have resulted in some stale prices existing within its products (Valuation of Securities CD and AVS), and the NAIC intends to modify its processes in the near future to prevent this from occurring again.

In the mean time, preparers of financial statements shall continue to utilize the best information available to them in order that the value of the reporting entity's assets and liabilities are a fair presentation of the financial condition of the reporting entity as of the reporting date. Current Annual and Quarterly Statement instructions allow the reporting entity to draw from what it determines to be the most appropriate source for the determination of fair value. Insurers should however disclose the method used if the unit price as published in the *Valuation of Securities* is not used.

I remind preparers of financial statements that guidance exists as to what is considered an other than temporary impairment for statutory accounting, as outlined in *INT 06-07: Definition of Phrase "Other Than Temporary."* I also remind preparers of financial statements of the guidance as it relates to Subsequent events. Specifically, *SSAP No. 9—Subsequent Events,* defines the two different types of subsequent events and the actions necessary by the reporting entity under both. It indicates under paragraph 3 the following:

3. Material subsequent events shall be considered either:

    a. Type I. Events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements;

    b. Type II. Events that provide evidence with respect to conditions that did not exist at the balance sheet date but arose subsequent to that date.

SSAP No. 9 goes on to explain that all information that becomes available prior to the issuance of the financial statements relating to a material Type I subsequent event shall be used by management to determine the amounts recorded in the financial statements. *SSAP No. 9* also describes that information that becomes available prior to the issuance of the financial statements relating to a material Type II subsequent event shall not be recorded in the financial statements, but shall be disclosed in the notes to the financial statements.

In addition, some states have informed the NAIC that they are considering requiring their domestic companies to provide fair values of securities as of October 31, 2008 as a note to the September 30, 2008 financial statements.