

Interpretation of the Emerging Accounting Issues Working Group

INT 00-02: Accounting for Leveraged Leases Involving Commercial Airplanes Under SSAP No. 22—Leases

ISSUE NULLIFIED BY SSAP NO. 22

INT 00-02 Dates Discussed

December 6, 1999, March 13, 2000

INT 00-02 References

SSAP No. 22—Leases (SSAP No. 22)

INT 00-02 Issue

1. The last sentence of paragraph 22 of SSAP No. 22, states “In cases where the asset being leased is a nonadmitted asset, any net leveraged lease asset shall be nonadmitted.” *SSAP No. 4—Assets and Nonadmitted Assets*, paragraph 3 defines nonadmitted assets as:

- a. Specifically identified within the *Accounting Practices and Procedures Manual* as a nonadmitted asset; or
- b. Not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*.

Paragraph 4.f., of *SSAP No. 20—Nonadmitted Assets*, describes the accounting guidance for automobiles, airplanes and other vehicles noting that the undepreciated portion shall be nonadmitted.

2. The first draft of *Issue Paper No. 22—Leases* did not contain any accounting guidance for leveraged leases. In January 1996, Interested Parties recommended that the Issue Paper be expanded to include such guidance noting that some insurers engage in this type of activity and that statutory guidance was needed. During the hearing on this subject, the specific example used to describe leveraged lease accounting involved leases for commercial airplanes. At that time, the Codification Working Group agreed with the recommendation from Interested Parties that this type of transaction met the definition of an admitted asset since the transaction was entered into for the purpose of income generation. It is important to note that when this decision was made, it was contemplated that the NAIC Model Investment Law-Defined Limits would be incorporated into codified NAIC SAP, and that model law specifically authorizes income generation assets as admitted assets. Subsequently, leveraged lease accounting was incorporated within SSAP No. 22, but the NAIC Model Investment Law-Defined Limits was not incorporated into SSAP No. 4. Hence, income generation assets were not generally defined as admitted assets in SSAP No. 4, and the basis upon which leveraged leases were considered admitted assets was lost.

3. Questions are being raised by some that were not actively involved in the Codification project about the classification of leveraged leases involving commercial airplanes. Is this an admitted or nonadmitted asset?

INT 00-02 Discussion

4. The working group reached a consensus position that leveraged leases involving commercial airplanes are admitted assets.

INT 00-02 Status

5. No further discussion is planned.