

Statement of Statutory Accounting Principles No. 98

Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43—Loan-Backed and Structured Securities

STATUS

Type of Issue:	Common Area
Issued:	November 5, 2008
Effective Date:	January 1, 2009
Affects:	Amends SSAP No. 43, paragraphs 14-16
Affected by:	Superseded by SSAP No. 43R
Interpreted by:	INT 00-11; INT 02-07; INT 06-07; INT 07-01

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SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for impairment analysis and subsequent valuation of loan-backed and structured securities.

SUMMARY CONCLUSION

2. This statement amends paragraphs 14-16 of *SSAP No. 43—Loan-Backed and Structured Securities* to the following:

14. The prospective approach recognizes, through the recalculation of the effective yield to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier and the effects and changes in projected cash flows. Under the prospective method, the recalculated effective yield will equate the carrying amount of the investment to the present value of the anticipated future cash flows. The recalculated yield is then used to accrue income on the investment balance for subsequent accounting periods. There are no accounting changes in the current period unless the security is determined to be other than temporarily impaired.

15. The retrospective methodology changes both the yield and the asset balance so that expected future cash flows produce a return on the investment equal to the return now expected over the life of the investment as measured from the date of acquisition. Under the retrospective method, the recalculated effective yield will equate the present value of the actual and anticipated cash flows with the original cost of the investment. The current balance is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased.

Impairment

16. If it is determined that the decline in fair value of the security is other than temporary, then the cost basis of the security shall be written down to fair value. The amount of the write down shall be accounted for as a realized loss. An interest related decline in value shall be considered other than temporary only when a reporting entity has the intent to sell the investment, at the reporting date, before recovery of the cost of the investment. For reporting entities required to maintain an AVR/IMR, the accounting for the entire amount of the realized capital loss shall be in accordance with *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*. Credit related other than temporary impairment losses shall be recorded through the AVR; interest related other than temporary impairment losses shall be recorded through the IMR. The new cost basis shall not be changed for subsequent recoveries in fair value. Therefore, the prospective adjustment method must be utilized for periods subsequent to the loss recognition.

Disclosures

3. This statement requires no additional disclosures.

Effective Date and Transition

4. This statement is effective for quarterly and annual reporting periods beginning on or after January 1, 2009, with early adoption permitted and encouraged. A change resulting from the adoption of this statement shall be accounted for prospectively. No cumulative effect adjustments or application of the new guidance to prior events or periods are required, similar to a change in accounting estimate.

RELEVANT ISSUE PAPERS

- *Issue Paper No. 124—Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, An Amendment to SSAP No. 43—Loan-Backed and Structured Securities*