

Statement of Statutory Accounting Applicable to CAPCO Transactions

It is the insurance company's responsibility to apply Statutory Accounting Guidance for CAPCO Transactions.

A certified capital company (CAPCO) is a state legislated venture capital firm that can be a partnership, corporation, trust or limited liability company, profit or not-for-profit, which may capitalize itself in a variety of ways. Investors who acquire an equity interest or qualified debt instrument receive state premium or income tax credit. Guidance on the accounting for investments in Certified Capital Companies ("CAPCO") is in "*INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)*" (INT 06-02) located in Appendix B of the *Accounting Practices and Procedures Manual*.

INT 06-02 requires reporting entities to account and report for investments in CAPCOs consistent with the security or other interest they acquire except for specific guidance on the tax credits. For example, an investor who acquired a bond issued by a CAPCO would follow the accounting guidance for bonds found in *SSAP No. 26— Bonds, excluding Loan-backed and Structured Securities* and report the details about the transaction on Schedule D in accordance with the NAIC Quarterly and Annual Statement Instructions. Another example would be an investor who acquired a limited liability partnership interest, the interest would be valued in accordance with the guidance for limited liability partnerships contained in *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and reported on Schedule BA in accordance with the NAIC Quarterly and Annual Statement Instructions within the appropriate Joint Venture, Partnership or Limited Liability Company subcategory. Both examples would also follow the specific reporting on tax credits found in INT 06-02.

The insurance company should first determine the reporting for CAPCOs per the statutory accounting guidance by establishing the character of the investment and then applying the appropriate accounting and reporting guidance. If the CAPCO investment does not meet the filing exempt requirements, it should be filed with the SVO. If the SVO disagrees with the insurance company characterization of the investment, it will so inform the insurance company and provide rationale why the SVO believes the company has misapplied or misinterpreted the guidance of INT 06-02 and request a re-filing if necessary.

<p>This Statement is intended to clarify the reporting process for CAPCO securities. This Statement does not interpret or modify <i>INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)</i>" (INT 06-02) located in Appendix B of the <i>Accounting Practices and Procedures Manual</i>; <i>SSAP No. 26— Bonds, excluding Loan-backed and Structured Securities</i> or <i>SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies</i>.</p>
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