Interpretation of the Emerging Accounting Issues Working Group

INT 99-04: Recognition of Prepayment Penalties Upon Adoption of Codification

ISSUE NULLIFIED BY SSAP NO. 37

INT 99-04 Dates Discussed

December 7, 1998; March 8, 1999

INT 99-04 References

SSAP No. 37—Mortgage Loans (SSAP No. 37)

INT 99-04 Issue

1. SSAP No. 37 requires insurers to report a prepayment penalty or acceleration fee as investment income when received. Currently, some insurers record these fees as realized gains and thus amortize them through IMR. SSAP No. 37 also stipulates a change resulting from the adoption of the statement be accounted for as a change in accounting principle. Upon adoption of Codification, it is probable that some insurers might continue to amortize the existing gain included in IMR and recognize subsequent fees as investment income.

2. Should an insurer release all unamortized amounts included in IMR and related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors (SSAP No. 3)?

INT 99-04 Discussion

3. The working group reached a consensus to instruct insurer’s to release all unamortized amounts included in IMR related to prepayment penalties upon adoption of Codification and recognize such change in accordance with SSAP No. 3.

INT 99-04 Status

4. No further discussion is planned.