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Adoption of article 7A and rule 12-31 of regulation S-X

United States. Securities and Exchange Commission

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For RELEASE Tuesday, October 6, 1964

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.

SECURITIES ACT OF 1933
Release No. 4727
SECURITIES EXCHANGE ACT OF 1934
Release No. 7433
HOLDING COMPANY ACT OF 1935
Release No. 15134
INVESTMENT COMPANY ACT OF 1940
Release No. 4057
ACCOUNTING SERIES
Release No. 100

ADOPTION OF ARTICLE 7A AND RULE 12-31
OF REGULATION S-X

The Securities and Exchange Commission today adopted an amendment to Regulation S-X consisting of a new section designated Article 7A and Rule 12-31 to govern the form and content of financial statements and related schedules filed by life insurance companies.

The financial statements, schedules and special notes are based on information either in the annual statements filed by life insurance companies with state regulatory authorities or otherwise readily available.

Specific regulations for life insurance companies are deemed necessary because of the increasing number of life insurance companies filing financial statements with the Commission in registration statements and annual reports in order to provide for reasonable uniformity in financial reporting. The amendments are based on experience gained from the examination of financial statements and schedules filed with the Commission, on comments received from interested persons as a result of notice to adopt these amendments, and on discussions with representatives of industry associations, state regulatory authorities, and public accountants.

The amendment is attached except that the schedules referred to in Rule 7A-06 and other rules of Regulation S-X which are unchanged are omitted.

This action is taken pursuant to authority conferred on the Securities and Exchange Commission by the Securities Act of 1933, particularly Sections 6, 7, 8, 10, and 19(a) thereof; the Securities Exchange Act of 1934, particularly Sections 12, 13, 15(d), and 23(a) thereof; the Public Utility Holding Company Act of 1935, particularly Sections 5(b), 14, and 20(a) thereof; and the Investment Company Act of 1940, particularly Sections 8, 30, 31(c), and 38(a) thereof.

The amendment shall be effective with respect to financial statements for any fiscal year ending on or after December 31, 1964, filed as a part of any registration statement, application for registration or report. However, if a registrant so elects, the revised articles may be applied to financial statements filed prior to that date.

By the Commission.

Orval L. DuBois
Secretary

Article 7A. Life Insurance Companies

Rule 7A-01. Application of Article 7A.

This article shall be applicable to financial statements filed for life insurance companies.

Rule 7A-02. General Requirement.

Except as otherwise provided in this article, persons subject to this article shall follow the rules and instructions governing the definition and computation of items in annual statements to their State regulatory authority. If the registrant deviates from such rules and instructions of its State regulatory authority, except in accordance with the provisions of this article, the reason for and effect of such deviation shall be stated.

Rule 7A-03. Balance Sheets.

Balance sheets filed for life insurance companies shall comply with the following provisions:

ADMITTED ASSETS

1. Bonds.
2. Investments in stocks other than stocks of affiliates.--State separately (a) preferred stocks and (b) common stocks.
3. Investments in stocks of affiliates.
 - (a) In insurance companies.--Include under this subcaption only stocks of insurance companies.
 - (b) In other affiliates.--Include under this subcaption stocks of other affiliates. If any such "other affiliate" controls insurance companies the stock of such "other affiliate" shall be included under this subcaption, and the fact of such control shall be stated in a note to the balance sheet.
4. Mortgage loans on real estate.--State separately (a) first liens and (b) other than first liens.
5. Real estate.--State separately if material (a) property occupied by the company; (b) property acquired by foreclosure; and (c) investment property. The amount of encumbrances deducted shall be stated parenthetically.
6. Policy loans.
7. Cash and bank deposits.
8. Premiums and other considerations deferred and uncollected.
9. Investment income due and accrued.

10. Other assets.--State separately any significant items.

LIABILITIES, CAPITAL SHARES AND SURPLUS

11. Aggregate reserves for all policies.--State separately reserves for (a) life insurance; (b) accident and health insurance; (c) supplementary contracts without life contingencies; and (d) policyholders' dividend accumulations.

12. Policy and contract claims.

13. Other policyholders' funds.--Include premiums paid in advance, premium deposit funds, and dividends to policyholders declared and unpaid and estimated amounts provided for payment in the following year. State separately any material amounts.

14. Dividends to stockholders declared and unpaid.

15. Borrowed money.--State here or in a note as to each loan (a) from whom borrowed; (b) date of loan; (c) repayment terms and other conditions governing each loan; (d) due date; (e) extensions granted; (f) original amount; and (g) interest rate.

16. Other liabilities.--State separately any significant items.

17. Commitments and contingent liabilities.--See Rules 3-18, 3-19(g), and 7A-05-3.

18. Mandatory securities valuation reserve.--See Rule 7A-05-2(d).

19. Capital shares.--State for each class of shares the title of issue, the number of shares authorized, the number of shares outstanding and the capital share liability thereof, and, if convertible, the basis of conversion. Show also the dollar amount, if any, of capital shares subscribed but unissued and of subscriptions receivable thereon.

20. Surplus.--(a) Separate captions shall be shown for (1) paid-in surplus, (2) surplus arising from revaluation of assets, (3) other capital surplus, and (4) earned surplus (i) appropriated and (ii) unappropriated. There shall be included under earned surplus, appropriated, all special surplus funds. That portion of the surplus allocable to participating policies should be included in caption 21 below.

(b) If undistributed earnings of subsidiaries are included, state the amount thereof parenthetically or otherwise.

(c) An analysis of each surplus account setting forth the information prescribed in Rule 11-02 shall be given for each period for which a profit and loss statement is filed, as a continuation of the related profit and loss statement or in the form of a separate statement of surplus, and shall

be referred to here. In this statement caption 3, Other additions to surplus, shall be subdivided to show (1) unrealized gain on bonds and stocks from change in admitted asset values; (2) unrealized gain on other investments from change in admitted asset values; (3) realized gain on investments; and (4) all others, designating clearly the nature thereof. Likewise, caption 4, Deductions from surplus other than dividends, shall be subdivided to show (A) unrealized loss on bonds and stocks from change in admitted asset values; (B) unrealized loss on other investments from change in admitted asset values; (C) realized loss on investments; and (D) all others, designating clearly the nature thereof.

(d) If separate balances are not shown in the accounts for the divisions of surplus in (a) above other than for earned surplus appropriated, i.e., if the company has not, up to the opening of the period of report, differentiated in its accounting for surplus as indicated, then the unsegregated surplus may be stated in one amount, and, in lieu of such segregation, there shall be given as a note an analysis of surplus since organization. Such analysis shall show (1) total net income after income taxes; (2) aggregate dividends paid (A) in cash and (B) in capital stock; (3) total paid-in surplus; (4) realized gain or loss on investments; (5) unrealized gain or loss from change in admitted asset values; (6) increase in reserves on account of change in valuation basis; (7) non-admitted assets; and (8) other additions or deductions of material amount, indicating clearly the nature of the item.

21. Surplus allocable to participating policies.--State the amount of surplus required to be allocated to participating policies and not available for dividends to stockholders.

Rule 7A-04. Profit and Loss or Income Statements (Summary of operations).

Profit and loss or income statements (summary of operations) filed for life insurance companies shall comply with the following provisions:

1. Premiums and other considerations.--State separately the amount arising from (a) life insurance; (b) accident and health insurance; and (c) considerations for supplementary contracts.

2. Investment income.

(a) Investment income.

(1) Interest on bonds.

(2) Dividends.--State separately dividends from (i) unaffiliated companies and (ii) affiliated companies.

(3) Interest on mortgage loans.

(4) Real estate income.

(5) Interest on policy loans.

(6) Other investment income.--State separately any material amounts.

(7) Total investment income.

(b) Investment expense.--Include investment expense, investment taxes, and depreciation on real estate. State separately any material amounts.

(c) Net investment income.

3. Other income.--State separately any significant items.

4. Total.

5. Death and other benefits.

6. Increase in aggregate reserves for all policies.

7. Total.

8. Balance.

9. Commissions.

10. General insurance expenses.--Amounts allocable to investment expense shall be excluded from this caption and captions 11 and 12 below.

11. Insurance taxes, licenses and fees.--Income taxes shall not be included under this caption.

12. Other insurance expense.

13. Increase in loading on and cost of collection on deferred and uncollected premiums.

14. Total income and profit and loss from insurance and investment.

15. Dividends to policyholders.

16. Net income or loss before provision for income taxes.

17. Provision for income taxes.--State separately (a) Federal normal income tax and surtax and (b) other income taxes. Amounts allocable to realized gain or loss on investments shall be excluded from this caption and reported as deductions or additions to the related captions on the analysis of surplus.

18. Net income or loss (net gain from operations).--State here or in a note the amount of net income allocated to participating policies.

Rule 7A-05. Special Notes to Financial Statements.

1. Assets shall be set forth in the balance sheet at admitted asset values. Book values of assets included under captions 1, 2, 3(a), 3(b), 4, 5, and 6 shall be shown parenthetically or in a note.

The total amount of non-admitted assets shall be stated in a note, and if such amount exceeds one percent of the total admitted assets then a separate statement shall be presented showing the details of such assets. State in a note or otherwise the amount of assets charged to income or surplus immediately upon acquisition during the period if significant.

There shall also be added as a note to the financial statements the following:

"The term 'admitted assets' means the assets stated at values at which they are permitted to be reported to the respective domiciliary State regulatory authority for balance sheet purposes in the annual report in accordance with the rules and regulations of such regulatory authority.

"The term 'non-admitted assets' means assets other than assets which are so permitted to be reported."

2. State in notes or otherwise:

(a) The general policy of the company in determining dividends and profits allocable to participating policies.

(b) The amount of surplus not available for payment of dividends to stockholders. See Rule 3-19(f).

(c) The addition to the "policyholders surplus account" (under the sections of the Internal Revenue Code applicable to life insurance companies on which payment of income taxes has been deferred) for each period for which a profit and loss statement is filed and the total thereof accumulated as of the date of the most recent balance sheet filed. The income taxes, at current rates, which would become payable on these amounts upon distribution thereof to shareholders shall also be stated.

(d) The amount of income tax which would accrue if the unrealized gain from change in admitted asset value of investments were realized by sale or maturity.

3. State in a note the names of mortality tables and rates of interest most generally used in calculating reserves and whether the net level

premium or a modified reserve valuation method is used. Explain the policy with regard to reinsurance and the amount of such reinsurance.

Rule 7A-06. What Schedules Are To Be Filed.

(a) Except as expressly provided otherwise in the applicable form:

(1) The schedules specified below in this rule as Schedules I, II, III, IV, V, VI, VIII, and IX shall be filed as of the date of the most recent balance sheet filed for each person or group. Such schedules shall be certified if the related balance sheet is certified.

(2) All other schedules specified below in this rule shall be filed for each period for which a profit and loss statement is filed. Such schedules shall be certified if the related profit and loss statement is certified.

(b) Reference to the schedules shall be made against the appropriate captions of the balance sheet and the profit and loss statement.

(c) If the information required by any schedule (including the footnotes thereto) may be shown in the related balance sheet or profit and loss statement without making such statement unclear or confusing, that procedure may be followed and the schedule omitted.

Schedule I. Bonds.--The schedule prescribed by Rule 12-23 shall be filed in support of caption 1 of each balance sheet.

Schedule II. Stocks-Other than stocks of affiliates.--The schedule prescribed by Rule 12-24 shall be filed in support of caption 2 of each balance sheet.

Schedule III. Mortgage loans on real estate.--The schedule prescribed by Rule 12-25 shall be filed in support of caption 4 of each balance sheet.

Schedule IV. Real Estate.--The schedule prescribed by Rule 12-26 shall be filed in support of caption 5 of each balance sheet.

Schedule V. Summary of investments in securities-Other than securities of affiliates.--The summary schedule prescribed by Rule 12-27 shall be filed in conjunction with Schedules I and II.

Schedule VI. Investments in stocks of affiliates.--The schedule prescribed by Rule 12-28 shall be filed in support of caption 3 of each balance sheet.

Schedule VII. Policy reserves, benefits, and insurance in force.--The schedule prescribed by Rule 12-31 shall be filed in support of caption 11 of each balance sheet and captions 5 and 6 of each profit and loss statement. The schedule prescribed by Rule 12-29 shall be used insofar as it

may more appropriately present those reserves of accident and health business which are based on unearned premiums and the related benefits paid.

Schedule VIII. Capital shares.--The schedule prescribed by Rule 12-14 shall be filed in support of caption 19 of each balance sheet.

Schedule IX. Other securities.--If there are any classes of securities not included in Schedule VIII, set forth in this schedule information concerning such securities corresponding to that required for the securities in such schedule. If the securities required to be reported on the schedules prescribed by Rules 12-10, 12-12 or 12-15 are present, those schedules should be used. Information need not be set forth, however, as to notes, drafts, bills of exchange or bankers' acceptances having a maturity at the time of issuance of not exceeding one year.

Schedule X. Income from dividends--Equity in net profit and loss of affiliates.--The schedule prescribed by Rule 12-17 shall be filed in support of caption 2(a)(2)(ii) of each profit and loss statement.

Schedule XI. Summary of realized gains or losses on sale or maturity of investments.--The schedule prescribed by Rule 12-30 shall be filed in support of the related amount shown on each analysis of surplus required under caption 20(c) of each balance sheet.

Rule 12-31. Policy Reserves, Benefits, and Insurance in Force.^{1/}
(For Life Insurance Companies)

Policy Reserves:

1. Additions		\$
(a) Tabular net premiums and other considerations		
(b) Tabular interest		
(c) Other <u>2/</u>		_____
		\$
2. Deductions		
(a) Tabular cost	\$	
(b) Reserves released		
(c) Annuity, supplementary contract and other payments		
(d) Other <u>2/</u>	_____	_____
		\$
3. Increase in policy reserves		
4. Policy reserves at beginning of period		_____
		\$
5. Policy reserves at end of period		=====
Death and other benefits	\$	=====
Insurance in force	\$	=====

1/This schedule shall be prepared from and be in substantially the same form as the analysis of increase in reserves during the year (gain and loss exhibit) of the annual statement filed with the respective domiciliary State regulatory authority. If the company writes more than one line of business, e.g., industrial, ordinary, group life insurance, the schedule shall show in columnar form the changes in the policy reserves and the amounts of benefits and insurance in force allocable to each line of business. In lieu of this schedule there may be filed the aforementioned analysis of increase in reserves during the year (gain and loss exhibit) of the annual statement filed with the respective domiciliary State regulatory authority together with the information required regarding death and other benefits and insurance in force.

2/State separately any significant items.