

**MEMO# 16389**

July 31, 2003

## **AICPA ISSUES PROPOSAL CLARIFYING REPORTING OF FINANCIAL HIGHLIGHTS BY INSURANCE COMPANY SEPARATE ACCOUNTS**

[16389] July 31, 2003 TO: ACCOUNTING/TREASURERS COMMITTEE No. 30-03 VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 5-03 RE: AICPA ISSUES PROPOSAL CLARIFYING REPORTING OF FINANCIAL HIGHLIGHTS BY INSURANCE COMPANY SEPARATE ACCOUNTS The AICPA's Accounting Standards Executive Committee recently issued an exposure draft of a proposed Statement of Position, Financial Highlights of Separate Accounts.<sup>1</sup> The SOP would amend the Investment Company Audit Guide. The proposal generally carries forward and elevates guidance previously issued in an AICPA Technical Practice Aid.<sup>2</sup> The proposal will be effective for fiscal years ending after December 15, 2003. Comments on the proposal are due to the AICPA by September 15, 2003. If there are comments that you would like the Institute to consider in a possible comment letter, please provide them to Greg Smith at (202) 326-5851 or [smith@ici.org](mailto:smith@ici.org) by August 22. Disclosure of Ranges Insurance company separate accounts often offer multiple products with varying fee structures resulting in numerous accumulation unit values. The proposal indicates that if each contract variation were treated as a separate class of shares (requiring separate financial highlights), the volume of information presented would likely be overwhelming and detract from the relevance and usefulness of the financial statements. The proposal allows separate accounts with multiple accumulation unit values per subaccount to present ranges of financial information in the financial highlights. In particular, such separate accounts may present financial highlights for either: 1. Each contract expense level that results in a distinct net unit value and for which units were issued and outstanding during the reporting period; or 2. The range of the lowest and highest level of expense ratio and the related total return, and unit values during each reporting period. 1 A copy of the exposure draft is available on the AICPA's website at:

[http://www.aicpa.org/members/div/acctstd/edo/2003-\\_06\\_15-sop-amendment.asp](http://www.aicpa.org/members/div/acctstd/edo/2003-_06_15-sop-amendment.asp). 2 See ICI Memo No. 14548 (March 18, 2002) describing AICPA Technical Practice Aid section 6910.11-.15 (the "TPA"). 2 The proposal indicates that the notes to the financial highlights table should state clearly that the expense ratio considers only the expenses borne directly by the separate account and excludes expenses incurred indirectly by the underlying funds or charged through the redemption of units. Moreover, the disclosure should include ranges of all fees that are charged by the separate account and whether those fees are assessed as direct reductions in unit values or through the redemption of units. Expense Ratio The proposal indicates that the expense ratio should include only those expenses that result in a direct reduction to unit values (e.g., mortality and expense charges). Charges made

directly to contract owner accounts through the redemption of units and expenses of the underlying fund should be excluded. Calculation of Ranges Where the financial highlights presents ranges of financial information, the total return and unit value information presented should correspond to the contracts having the lowest and highest expense ratio. The proposal would also require an explanation of how the ranges of total return and unit value information are related to the expense ratio, and why total return and unit value for some contracts may be outside the disclosed ranges. Investment Income Ratio Under the proposal the investment income ratio should include dividends, other than capital gain distributions, received from the underlying fund divided by average net assets. The investment income ratio should exclude those expenses that result in a direct reduction in unit values (e.g., mortality and expense charges). Total Return Under the proposal the total return ratio represents the total return for the period, including changes in the underlying fund and deduction of expenses reflected in the expense ratio. The total return ratio does not include any expenses assessed through the redemption of units. Gregory M. Smith  
Director - Operations/Compliance & Fund Accounting

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