

Article Title: ARCHIVE | Criteria | Insurance | General: Accounting And Financial Reporting Data: (EDITOR'S NOTE: — This criteria article is no longer current. It has been superseded by the article titled, "Assumptions For Quantitative Metrics Used In Rating Insurers Globally," published April 14, 2011.) Standard & Poor's Ratings Services believes financial statements should endeavor to accurately portray the underlying economic position of a company. Improving accounting standards still leave much room for discrepancy and disparity in how individual companies are treated and oftentimes obscure the future prospects and earnings potential of a company. We routinely make analytical adjustments to reported financial amounts to arrive at a clearer view of the economic reality of a company's financial performance and position. Standard & Poor's is refining and adapting its methodology and assumptions for evaluating the accounting and financial reporting practices of insurance companies, related to "Principles of Corporate and Government Ratings," which we published on June 26, 2007, on RatingsDirect at www.ratingsdirect.com and Standard & Poor's Web site at www.standardandpoors.com. We are publishing this article to help market participants better understand our approach to reviewing insurance companies. This article partly amends and supersedes "Property/Casualty: Accounting And Financial Reporting," published April 20, 2004; "Health: Accounting And Financial Reporting," published April 22, 2004; and "Life Insurance Criteria: Accounting and And Financial Reporting," published April 22, 2004, on RatingsDirect at www.ratingsdirect.com and Standard & Poor's Web site at www.standardandpoors.com. This article is part of a broad series of measures announced last year to enhance our governance, analytics, dissemination of information, and investor education initiatives. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency to better serve the global markets. The purpose of the Accounting Section of Standard & Poor's analysis of insurers is to capture in one place the major accounting issues that affect an issuer's reported financial information, the related analytical significance, and the adjustments we may make based on our analysis. In general, this section addresses the following areas: Analytical adjustments and areas of potential concern. Significant transactions and notable events that have accounting and financial reporting implications. Significant financial reporting and accounting policies and their underlying assumptions. The transparency and quality of an issuer's financial policy and footnote disclosures relative to those of other industry participants and the relevance to any of our analytical judgments. The credit implications of new accounting guidance that may affect the company prospectively. We typically adjust reported financial statement amounts to facilitate analytical comparisons across institutions and jurisdictions, better reflect the underlying economics on a comparative basis, enable us to make comparable forecasts, and facilitate comparisons across reporting periods. We take an analytic, rather than forensic, approach to accounting and financial reporting, with a focus on interpreting credit risk. The Accounting and Financial Reporting section of the analysis will describe the analytical adjustments we generally make to company-reported information and the nature of and rationale for adjustments as they relate to our global rated universe of insurance entities. Although we revise certain reported amounts, this does not imply that we challenge the company's application of generally accepted accounting principles (GAAP), the adequacy of its audit or financial reporting process, or the appropriateness of GAAP accounting to fairly depict its financial position and results for other purposes. Rather, it reflects a fundamental difference between accounting and analysis insofar as good analysis looks at multiple perspectives and uses adjustments (as well as other data, such as sensitivity analyses) as an analytical technique to depict a situation differently for a specific purpose or to gain another vantage point. This section is not intended to be a summary of an issuer's every accounting policy. We will likely cross reference accounting and financial reporting policies and issues that may affect in a material way the view of another rating factor in the appropriate section (e.g. evaluation of loss reserve adequacy, contingent capital instruments affecting capital adequacy, instruments or activities affecting the evaluation of financial leverage, etc.). We will not score the Accounting and Financial Reporting Section. However, we will make judgments about how conservative or aggressive specific practices are relative to those of peers, and how these accounting issues could positively or negatively affect the various categories of analysis that Standard & Poor's uses to evaluate insurance companies. Related Articles "Interactive Ratings Methodology," April 22, 2009.