



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila

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CIRCULAR LETTER

TO : ALL INSURANCE AND REINSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES

SUBJECT : LEASEHOLD IMPROVEMENTS AS NON-ADMITTED ASSET

WHEREAS, pursuant to Section 437 of the amended Insurance Code (R.A. 10607), the Insurance Commissioner is empowered to issue rulings, instructions, circulars, orders and decisions as he may deem necessary to secure the enforcement of the provisions of the Insurance Code.

WHEREAS, under the Manual of Accounts in the Financial Reporting Framework (FRF) contained in IC Circular Letter 2016-65, Leasehold Improvements represents the cost of additions, improvements and/or alterations on the company's leased office premises which are incurred in making the property ready for use and occupancy. This include the initial estimate of the costs of dismantling and removing the improvements and restoring the site, the obligation for which the company incurs when the property is leased.

NOW THEREFORE, this Circular Letter is issued to clarify that Leasehold Improvements is **not** considered as admitted asset for purposes of determining the company's compliance with the minimum paid-up capital or net worth requirements as required under Section 194 of the Amended Insurance Code for the following reasons:

First, Leasehold Improvements is not included among the admitted assets specifically enumerated under Section 202.

Second, while Section 202 (k) of the Amended Insurance Code provided the admission of other assets, to wit:

"Other assets, not inconsistent with the provisions of paragraphs (a) to (j) hereof, which are deemed by the Commissioner to be **readily realizable and available for the payment of losses and claims** at values to be determined by him in a circular, rule or regulation." (Emphasis and underscoring supplied.)

Leasehold Improvements still cannot be considered as admitted asset considering the same is **not readily realizable and available** for the payment of losses of claims.

The foregoing reason is further supported by the Statutory Issue Paper No. 31 issued by the National Association of Insurance Commissioners¹, which stated that:

“Leasehold Improvements meet the definition of an asset in that they provide future economic benefit to the reporting entity. However, **because such assets are not readily available to satisfy policyholder obligations (ie. they will revert to the lessor at the end of the lease term) they are considered non-admitted assets.**” (Emphasis supplied.)

Nevertheless, Leasehold Improvements may be capitalized and considered asset upon acquisition of the building where the improvements are attached subject to approval of the Insurance Commissioner.

All concerned should be guided accordingly.



DENNIS B. FUNA
Insurance Commissioner



¹ Statutory Issue Paper No. 31: Leasehold Improvements Paid by the Reporting Entity as Lessee, issued by the National Association of Insurance Commissioners, 16 March 1998. See https://www.naic.org/sap_app_updates/app_e_issues.htm