FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Insurance—Targeted Improvements to the Accounting for Long-Duration Contracts

November 1, 2017

Meeting Purpose

1. The Board will redeliberate the amendments in proposed Accounting Standards Update, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The topics for this meeting are presentation, disclosures, and market risk benefits.

Background Information

2. The proposed Update was issued in September 2016. The objectives of the amendments in the proposed Update are to improve, simplify, and enhance the financial reporting of long-duration contracts issued by insurance entities, thus providing financial statement users with more useful information about the amount, timing, and uncertainty of cash flows related to those contracts.

3. On February 8, 2017, the Board discussed the feedback received from comment letters and user outreach.

4. On April 19, 2017, the Board held a public roundtable meeting to listen to stakeholder views and to further develop the Board's understanding of the issues raised or alternatives proposed. Financial statement users, preparers, auditors, and industry groups participated in the roundtable discussion.

5. On August 2, 2017, the Board redeliberated the proposed amendments on the guidance on the liability for future policy benefits for nonparticipating traditional and limited-payment insurance contracts.

6. On October 4, 2017, the Board redeliberated the proposed amendments on the guidance on participating contracts, deferred acquisition costs (DAC), and market risk benefits.

Questions for the Board

Presentation

1. Does the Board wish to affirm separate presentation of market risk benefits?

2. Does the Board wish to require separate presentation in the statement of operations of the adjustment relating to updating the liability for future policy benefits measurement assumptions?

Disclosures

3. Does the Board wish to affirm all proposed disclosure requirements other than those addressed in question 5?

4. Does the Board wish to add the following disclosure requirements?
   a. Gross premiums
   b. Information about techniques and inputs used to determine unobservable rates
   c. Premium deficiency testing assumptions and results.

5. Does the Board wish to remove the following proposed disclosure requirements?
   a. Information about objectives, policies, and processes for managing risks, including information about hedging activity
   b. Ranges and weighted averages of inputs or assumptions (other than discount rates) used in liability measurement
   c. Weighted-average rates earned from the investment of policyholders' account balance deposits
   d. Information used to conclude that no additional liability should be recognized for universal life-type contracts.

6. Does the Board wish to reduce the frequency of the following proposed disclosure requirements to at least annually?
   a. Information about assumptions, changes in assumptions, and the effect of those changes
   b. The nature of capitalized costs
   c. The entity's accounting policy for sales inducements.

7. Does the Board wish to replace the proposed transition disclosure requirements with the following?
   a. Rollforward of the preadoption transition date balances to postadoption transition date balances
   b. Qualitative and quantitative information about the effect of transition adjustments.

Topic 1: Presentation

Market Risk Benefits

7. The proposed amendments would require separate presentation of market risk benefits in the statement of financial position and separate presentation of changes in fair value of market risk benefits in the statement of operations, except for changes in instrument-specific credit risk, which would be presented separately in other comprehensive income.

8. The Board will consider whether to affirm the separate presentation of market risk benefits.

Liability for Future Policy Benefits

9. The liability for future policy benefits would be remeasured for actual experience and updated future assumptions. At the August 2, 2017 Board meeting, some Board members suggested that the liability remeasurement gain or loss should be presented separately from the policyholder benefit expense calculated using the updated net premium ratio as of the beginning of the period.

10. The Board will consider whether the liability remeasurement gain or loss should be presented separately on the statement of operations. This decision would apply to all products for which liability measurement assumptions are updated on a retrospective catch-up basis.

Topic 2: Disclosures

Proposed Update

11. The amendments in the proposed Update include the following proposed disclosure requirements:

    (a) *Balance Rollforwards*: Disaggregated tabular rollforwards, reconciled to the statement of financial position

    (b) *Measurement Assumptions or Inputs*: Qualitative and quantitative (which includes ranges, weighted averages, and actual experience) information about the significant estimates, inputs, judgments, and assumptions used in measurement

    (c) *Deteriorating or Loss-Making Contracts*: Qualitative and quantitative information about adverse development

    (d) *Hedging or Risk Management*: Processes for managing risks, including information about hedging activity undertaken to manage capital market risk

(e) *Other*: Information about duration, guaranteed minimum crediting rates, weighted-average earned rates, weighted-average crediting rates, net amount at risk, and cash surrender values.

12. Most comment letter respondents agreed with the objective of the proposal to require enhanced disclosures. Those respondents noted that the enhanced disclosures would provide useful information to users of financial statements. However, respondents expressed concerns with specific aspects of the required disclosures within the proposed Update.

Disclosures to Add

13. Some respondents suggested that the Board consider including additional information about the margin, including disclosure of gross premiums. These respondents stated that including gross premium or margin information would benefit users in their margin analyses by providing an economic measure of the current value of expected future margins.

14. Users suggested that the Board require entities to disclose information about when an entity uses a discount rate that is not reflective of a market observable rate for periods in which no market observable information exists or during a period of market dislocation.

15. At the August 2, 2017 Board meeting, the Board tentatively decided to eliminate premium deficiency testing for traditional and limited-payment contracts only. Therefore, the Board will consider expanding disclosures pertaining to premium deficiency and loss recognition for universal life-type and participating insurance contracts.

Disclosures to Remove

16. Many respondents disagreed with the requirement to disclose qualitative and quantitative information about objectives, policies, and processes for managing risks arising from market risk benefits and policyholders' account balances, including information about hedging activity undertaken to manage capital market risk.

17. Many respondents disagreed with the requirements to disclose the ranges or weighted averages of measurement assumptions, stating that these disclosures would be incomprehensible to users and the ranges would be far too wide to provide meaningful information. Respondents also stated that it would be difficult to calculate weighted-average mortality, lapse, and benefit utilization rate assumptions.

18. Respondents also disagreed with the requirement to disclose weighted-average rates earned from the investment of policyholders' account balance deposits.

Alternatives for Consideration

19. The Board will consider adding the following proposed disclosure requirements:

    (a) Gross premiums

    (b) Information about techniques and inputs used to determine unobservable rates

    (c) Premium deficiency testing assumptions and results.

20. The Board will consider removing the following proposed disclosure requirements:

    (a) Information about objectives, policies, and processes for managing risks, including information about hedging activity

    (b) Ranges and weighted averages of inputs or assumptions (other than discount rates) used in liability measurement

    (c) Weighted-average rates earned from the investment of policyholders' account balance deposits

    (d) Information used to conclude that no additional liability should be recognized for universal life-type contracts.

Disclosure Frequency

21. Many respondents expressed concern with the volume of interim disclosure requirements and suggested that the disclosures be required only in annual reporting periods. Many respondents also stated that rather than requiring all disclosures to be presented in interim financial statements, entities could rely on the guidance from Topic 270, Interim Reporting, and disclose information when certain criteria are met.

22. Respondents stated that qualitative disclosures are unlikely to change yearly, let alone quarterly. In addition, any change in cash flow assumptions would be captured in the proposed balance rollforwards; therefore, the relevant information would be provided to users. These respondents stated that other disclosures, such as rollforwards and reconciliations, could still be required quarterly because those balances will likely change significantly during interim periods.

23. The Board will consider reducing the frequency of the following proposed disclosure requirements to at least annually:

    (a) Information about assumptions, changes in assumptions, and the effects of those changes

    (b) The nature of capitalized costs

(c) The entity's accounting policy for sales inducements.

Transition Disclosures

24. Some respondents supported the proposed transition disclosure requirements, stating that they would provide decision-useful information to users of financial statements. However, other respondents disagreed with the proposed transition disclosure requirements, including the following issues:

(a) The need to provide transition disclosures on a disaggregated basis

(b) The requirement in paragraph 250-10-50-1(b)(2), which would require entities to disclose the effect of the accounting change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted

(c) The requirement in paragraph 250-10-50-3, which would require entities to disclose transition-related disclosures during interim reporting periods.

25. The Board will consider replacing the proposed transition disclosure requirements with the following:

(a) Rollforward of the preadoption transition date balances to postadoption transition date balances

(b) Qualitative and quantitative information about the effect of transition adjustments.

Topic 3: Market Risk Benefits

Background

26. To solicit feedback on the scope of market risk benefits, including whether the scope should be expanded to include general account products, the following question was included in the proposed Update:

> **Question 13—Scope:** Do you agree with the scope of the proposed amendments on the accounting for market risk benefits? If not, what types of contracts or contract features should be included in or excluded from the scope and why?

27. At the October 4, 2017 Board meeting, on the basis of feedback received on question 13, the Board tentatively decided to expand the scope of market risk benefits to include certain general account products. The Board directed the staff to draft revised market risk benefits criteria.

Original Wording in the Proposed Update

28. The original market risk benefit criteria in the proposed Update is as follows:

> **944-40-25-25C** A **market risk benefit** shall be recognized for contracts and benefits that meet both of the following criteria:
>
> a. Contract: The contract holder has the ability to direct funds to one or more separate account investment alternatives maintained by the insurance entity, and investment performance, net of contract fees and assessments, is passed through to the contract holder. The separate account need not be legally recognized or legally insulated from the general account liabilities of the insurance entity.
>
> b. Benefit: The insurance entity provides a benefit protecting the contract holder from adverse capital market performance, exposing the insurance entity to other-than-nominal capital market risk. A nominal risk, as explained in paragraph 944-20-15-21, is a risk of insignificant amount or a risk that has a remote probability of occurring. A benefit is presumed to have other-than-nominal capital market risk if the net amount at risk (that is, the guaranteed benefit in excess of the account balance, cash value, or similar amount) varies more than an insignificant amount in response to capital market volatility. Capital market risk includes equity, interest rate, and foreign exchange risk.
>
> If a long-duration contract contains multiple market risk benefits, those market risk benefits shall be bundled together as a single, compound market risk benefit (consistent with the guidance in paragraph 815-15-25-7).

Draft Proposed Wording Change

29. The following draft proposed wording would capture the expansion to general account products:

> **944-40-25-25C** A **market risk benefit** shall be recognized for <u>a contract feature that exposes the insurance entity to other-than-nominal capital market risk that arises from either</u> of the following:
>
> a. <u>A contract feature that protects the account balance (or similar amount) from adverse capital market performance</u>
>
> b. <u>A contract feature that causes variability in the account balance (or similar amount) in response to capital market volatility.</u>
>
> A nominal risk, as explained in paragraph 944-20-15-21, is a risk of insignificant amount or a risk that has a remote probability of occurring. <u>A contract feature</u> is presumed to <u>expose the insurance entity to</u> other-than-nominal capital market risk if <u>cash flows related to the contract feature vary</u> more than an insignificant amount in response to capital market volatility<u>, including changes in a market index or changes in the value of a reference portfolio</u>. Capital market risk includes equity, interest rate, and foreign exchange risk. If a long-duration contract contains multiple market risk benefits, those market risk benefits shall be bundled together as a single, compound market risk benefit (consistent with the guidance in paragraph 815-15-25-7).

Board Meeting Handout
Disclosure Framework
November 1, 2017

Meeting Purpose

1. This meeting addresses issues related to the proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8, Notes to Financial Statements* (proposed Concepts Statement).

2. Before discussing the issues in paragraphs 3 of this handout, introductory language to the decision question appendix of the proposed Concepts Statement will be discussed.

3. Discussion on the proposed Concepts Statement is organized as follows:

   (a) The role of objectives accompanying disclosure requirements

   (b) Information about potential effects of changes in general economic conditions or market factors and entity-specific factors or sector-specific factors on a line item

   (c) Future-oriented information

   (d) Interim disclosure concepts

   (e) The cost constraint

   (f) Completeness of the disclosure concepts

   (g) Other issues, including:

      (i) Information about other past events and current conditions and circumstances

      (ii) Information about the reporting entity.

   (h) Overall assessment against the purpose of the Conceptual Framework.

Background Information

4. The objective and primary focus of the disclosure framework project are to establish principles that would help guide the Board to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of each entity's financial statements. Along with the development of a framework that promotes consistent decisions by the Board about disclosure requirements, achieving the objective of

improvement disclosure effectiveness includes the appropriate exercise of discretion by reporting entities.

5. In March 2014, the Board issued the proposed Concepts Statement on the Board's decision process that is intended to identify a broad range of possible information for the Board to consider when deciding on the disclosure requirements for a Topic. From that intentionally broad set, the Board would identify a narrower set of disclosures about that Topic to be required on the basis of an evaluation of whether the benefits of entities providing the information outweigh the costs. The Board decided to test the concepts in the proposed Concepts Statement and improve the effectiveness of disclosure requirements on inventory, income taxes, fair value measurements, and defined benefit pensions and other postretirement plans by using those proposed concepts.

Introductory Language in the Decision Question Appendix

6. The following language could precede the decision questions in Appendix A to the proposed Concepts Statement:

> The Board and stakeholders who use this appendix will be guided and aided by the preceding concepts, but judgments based on the particular circumstances of each case will continue to play a major role in improving disclosure. The following questions in this appendix were developed as educational guidance for the Board as a tool to identify possible considerations for setting standards for disclosure in a Topic in the *FASB Accounting Standards Codification*®. Consistent with decisions about recognition, measurement, and presentation, the consideration by the Board must include a robust consideration of the objective of general purpose financial reporting, cost constraints, and differences in activities among entities. Therefore, not all educational guidance would be utilized for each Topic of the Codification. Furthermore, additional information that is not derived directly from the decision questions may be necessary for the Board to meet the objective of general purpose financial reporting.

Question for the Board
1. Is the proposed introductory language to *Appendix A: Decision Questions to Be Considered in Establishing Disclosure Requirements* suitable?

The Role of Objectives Accompanying Disclosure Requirements

7. At the July 19, 2017 Board meeting, the Board decided not to provide disclosure objectives without providing specific requirements or guidance on how to meet those objectives. Said differently, the Board will continue to use the concepts and decision questions in the proposed Concepts Statement to set disclosure requirements for the Disclosure Sections in the *FASB Accounting Standards Codification*®. However, some Board members noted that

an objective in a Disclosure Section serves, on its own, as a requirement for reporting entities to achieve regardless of the accompanying list. To achieve a disclosure objective, a reporting entity may need to provide other disclosures in addition to the disclosure requirements prescribed in that Disclosure Section.

8. Some stakeholders noted that language similar to the language (see below) in Securities Exchange Act Rule No. 12b-20, *Registration and Reporting—Additional Information*, could be incorporated in the Codification so that what is in the financial statements is not misleading:

> In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading.

Question for the Board
2. In the Codification, does the Board want to: (a) Require entities to disclose information beyond the listed requirements to meet the objectives provided in the Disclosure Sections? (b) Incorporate language into the Disclosure Sections, which requires entities to provide additional information so that the financial statements are not misleading, similar to that within Securities Exchange Act Rule No. 12b-20?

Information about Potential Effects of Changes in General Economic Conditions or Market Factors and Entity-Specific Factors or Sector-Specific Factors on a Line Item

9. Decision Questions L5 and L6 in the proposed Concepts Statement would help the Board to consider whether to require disclosures about potential effects of changes in (a) general economic conditions or market factors and (b) entity-specific factors or sector-specific factors on a line item. Beside the proposed disclosure requirements from Topic-level testing, there are existing disclosures that are consistent with those decision questions.

10. Decision Question L5 of the proposed Concepts Statement states:

> Are the cash flows related to the line item subject to change as a result of changes in general economic conditions or market factors? If so, are the specific conditions or factors or the nature of their effects not apparent from the description of the line item?
>
> ***Information to Be Considered for Disclosure***
>
> a. A description of the types of changes in future economic conditions or market factors that could be expected to cause frequent or significant changes (for

example, changes in interest rates, stock prices, and foreign currency rates and housing starts, unemployment, and inflation)

b. An indication of how changes in those factors would affect the prospects for cash flows arising from the line item (that is, sensitivity analysis)
c. A general description of the policies, practices, and strategies that could mitigate the effects of the changes in conditions or factors
d. An indication of the past effectiveness of the policies, practices, and strategies.

[Footnote reference omitted.]

11. Decision Question L6 of the proposed Concepts Statement states:

> Are the prospects for cash flows related to the line item affected by changes in entity-specific factors or sector-specific factors, particularly those that can be expected to change frequently or significantly, and would a user not be expected to be aware of the factors or their potential effects?
>
> Examples include volatile demand for the entity's products or services, social factors affecting the sector or entity, imminent obsolescence, supply chain concerns, new laws and regulations, availability of trained workers, management turnover, and environmental hazards.
>
> ***Information to Be Considered for Disclosure:***
>
> a. A description of the entity-specific factors or sector-specific factors that could be expected to cause frequent or significant changes
> b. An indication of the effects on the line item of changes in those factors
> c. A general description of the policies, practices, and strategies that could mitigate the effects of the changes in conditions or factors
> d. An indication of the past effectiveness of the policies, practices, and strategies.

[Footnote reference omitted.]

12. At the July 19, 2017 Board meeting, some Board members were concerned that disclosures indicated by those decision questions would be more appropriate for Management's Discussion and Analysis than the notes to financial statements.

Question for the Board
3. Does the Board want to retain decision questions L5 and L6 for considering disclosures that involve information about potential effects of changes in general economic conditions or market factors and entity-specific factors or sector-specific factors on a line item?

Future-Oriented Information

13. The proposed Concepts Statement states:

> D22. Making decisions about providing resources involves, in part, assessing prospects for the entity's future cash flows. Resource providers make estimates and assumptions about future events and conditions and might benefit

from receiving such future-oriented information in notes to financial statements, at least for use in comparison with their own predictions or assessments.

14. The proposed Concepts Statement identifies three types of future-oriented information that may be useful to users and may be appropriate for disclosure in the notes:

    (a) Information about estimates and assumptions used as inputs to measurements, many of which are future oriented and internally developed

    (b) Information about existing plans and strategies related to matters under management's control

    (c) Information about the effect of specified future changes in existing conditions on specific line items or on the entity.

15. The proposed Concepts Statement states:

> D27. The first is information about estimates and assumptions used as inputs to measurements, many of which are future oriented and internally developed. Information about those inputs often is an important part of a faithful representation of a line item and does not create the same degree of risk of negative consequences as do projections or predictions about future events that are not within a line item in the financial statements. Many such inputs relate to fair value measurements (which are estimates of current market prices). Those inputs reflect a market perspective instead of the entity's own perspective and are required specifically to be based on existing conditions and currently available information. In addition, they are either probability weighted or discounted at a rate that allows for risk and uncertainty. Even the results of entity-specific measurement inputs are purported to represent the way the entity views an item at the reporting date on the basis of existing conditions, and are not purported to be predictions. However, some entity-specific measurements also include projections or predictions about future events (for example, salvage value, useful lives, and bad-debt percentages) that are important to faithful representation of the line item. Because that information explains amounts included in financial statement line items, it would be appropriate for the Board to consider requiring disclosure of these inputs. In contrast, estimates of future revenues related to future sales transactions or the timing of those revenues would not be related to past events or current conditions or circumstances. Therefore, that information would be inappropriate for the notes unless it was an input to a current measure of an asset or a liability.
>
> D28. The second is information about existing plans and strategies related to matters under management's control. The disclosure of some types of plans may in some cases render those plans less effective and, therefore, adversely affect the reporting entity. That adverse consequence is different from those adverse consequences discussed in paragraph D23 and should be considered by the Board. Plans also are rarely required to be disclosed because a plan seldom supplements or explains amounts recognized in financial statements. For those reasons, it is likely that plans and strategies are not generally disclosed in notes to financial statements. However, there are exceptions, for example, plans as of the reporting date for the sale of a long-lived asset. That kind of future-oriented information does not involve an assertion about uncertain events beyond management's control nor does it represent promises by management,

> but it does represent management's current plans. That sort of disclosure is unlikely to result in a negative consequence to the entity as far as rendering the plan less effective, and it does help to further explain an amount that is currently recognized. However, an entity's plan and the entity's anticipated outcomes related to the plan, which are subject to external factors outside of the entity's control, would not be appropriate for requirement in the notes.
>
> D29. The third is information about the effect of specified future changes in existing conditions on specific line items or on the entity as a whole. In some cases, it is difficult to discern the potential effects on cash flows of a particular line item (or of an entity) without some indication of the way that possible future changes in economic conditions would affect the line item (or an entity).
>
> D30. One way to provide that information is by quantifying the effects of a specified change in economic conditions, for example, a 100-basis-point change in market interest rates. The Board might require that information in some circumstances if the information reflects the results of changing the inputs to a mathematical model and it is clearly explained that the effect (a) is specified in a standard and (b) does not represent a prediction by management. That sort of disclosure is different from a disclosure that requires an entity to predict changes in inputs, which are outside of its control and quantify those effects.
>
> D31. In summary, the Board generally does not require disclosures of expectations and assumptions about the future that are not inputs to current measures in financial statements or notes.

16. Some clarification about the meaning of "Board-specified change" might be beneficial. What is intended is the potential disclosure of the effects of a quantitative change in an economic or market factor in which the Board specifies the amount of the change in that factor. This does not serve as a prediction of what will happen but, rather, how sensitive the entity is to a particular economic or market factor.

17. This concept avoids putting the reporting entity in the position of potentially having to identify (at least in the notes) the types of factors that may affect the entity and how much the entity expects that it will be affected by those changes.

18. If Decision Questions L5 and L6 are removed from the proposed Concepts Statement, the discussion of information about the effect of specified future changes in existing conditions would be unnecessary. This is because no other concepts or decision questions would indicate sensitivity analysis as a potential disclosure.

19. Question 7 of the proposed Concepts Statement asks:

> Will the concepts related to future-oriented information (paragraphs D22–D31) result in disclosures that are appropriate for the notes? If not, what types of information should be included in or excluded from consideration for disclosure in the notes?

Question for the Board

4. Does the Board want to retain the discussion of the three types of appropriate future-oriented information in the proposed Concepts Statement?

Interim Disclosure Concepts

20. The proposed Concepts Statement, which was issued on March 4, 2014, includes the following concepts related to interim period disclosures:

Considerations Specific to Financial Statements for Interim Periods

D60. Financial statements for interim periods generally are provided for different reasons from the reasons for providing annual financial statements and, therefore, have unique characteristics and limitations. Those characteristics and limitations affect the nature and volume of information to be provided in notes.

D61. The interim periods for which financial statements are prepared should be viewed primarily as an integral part of annual periods. In addition, the financial statements for interim periods generally are not designed to be full sets of general purpose financial statements as are annual financial statements, primarily due to the increased timeliness of the information and the costs that would be incurred. Therefore, some of the information needed to understand interim-period financial statements must be obtained from the most recent set of annual financial statements. **[Footnote reference omitted.]**

D62. Because financial statements for interim periods are essentially an update of the information in the most recent annual statements, notes are intended to convey new information or information about significant changes to matters discussed in notes to the most recent annual financial statements.

Information Specific to Interim Reporting

D63. Because interim-period financial statements are not discrete, the notes should provide two specific types of information that would not be relevant in notes to annual financial statements. First, they should describe differences from the most recent annual financial statements in recognition, measurement, or presentation of line items. Some examples are accounting policies that differ from those applied in the most recent annual financial statements and methods of determining the amounts and expenses that are deferred or accelerated to reflect a portion of the anticipated annual amount. Second, they should explain how the financial position and results of operations for the interim period relate to the entire year, for example, the effect of seasonal variations in revenues.

D64. Financial statements for interim periods generally are aggregated to a greater degree than full sets of general purpose annual financial statements. Therefore, they are not necessarily as informative. If there are significant changes in financial position since the most recent annual financial statements or significant differences in results of operations that are unclear from the line items, the changes or differences should be explained in notes.

Information to Be Provided in both Interim-Period and Annual Financial Statements

D65. Interim-period financial statements are not designed to be as complete as a set of annual financial statements. Normally, relevant information that can be obtained from the most recent annual financial statements and has not changed is not provided in interim-period financial statements. That applies to most descriptions in notes and much of the explanatory information, such as accounting policies.

D66. Numerical information in notes to financial statements tends to change at least slightly from period to period, but that does not automatically mean that all notes including numerical information should be included in interim-period financial statements. For example, notes to annual financial statements include disaggregated information about some line items. Interim-period financial statements generally are designed to be more highly aggregated than annual financial statements and emphasize information about changes from the most recent annual financial statements. Providing all of the same disaggregated information in interim-period financial statements that is provided in annual financial statements would be inconsistent with that design. However, disaggregated information about line items would not be inconsistent with that design if the composition changed significantly in ways that users would have no reason to expect.

D67. If the direction and amount of the change during an interim period cannot be readily estimated or are otherwise not discernable from other information in the interim period and most recent annual financial statements, the new information should be included in notes. Fair values change in inherently less predictable ways and information about fair values of material items may be necessary at interim periods. Contingent liabilities or potential liabilities may have highly uncertain outcomes or otherwise may be so unpredictable that the most recent available information should be provided.

D68. In contrast, some annual disclosures relate to matters that are peripheral to the activities of most entities to whom they apply and are not likely to give important information for interim-period financial statements. For example, annual disclosure of capitalized costs may be relevant but peripheral to most businesses.

D69. Information may need to be included in notes to interim-period financial statements even if it can be estimated or is discernable from other information if it is especially important to the assessment of cash flow prospects. A key example is detailed information about revenues such as disaggregation, contract terms, and related balances.

D70. Some notes to annual financial statements provide information about changes since the end of the previous annual period. Similar information may be important to notes to interim-period financial statements. One example is a financial instrument measured at fair value for which there was an observed market price at the end of one period but no observable market price at the end of the next period.

D71. Finally, notes to interim-period financial statements should tend to be more highly aggregated than similar notes to annual financial statements.

21. Question 9 of the proposed Concepts Statement asks respondents:

> Are the concepts related to disclosure requirements for interim periods (paragraphs D60–71) appropriate? If not, are there concepts that should be added or removed?

22. At the May 28, 2014 Board meeting, the Board decided to amend Topic 270, Interim Reporting, to reflect that disclosures about matters required to be set forth in annual financial statements should be provided on an updated basis in the interim report if there is a substantial likelihood that the updated information would be viewed by a reasonable investor as significantly altering the "total mix" of information (in other words, based on materiality). The Board's plan was to redeliberate the interim disclosure concepts after they had been tested. At present, the amendments to Topic 270 have not been exposed.

Question for the Board
5. Does the Board want to include the interim disclosure concepts in the forthcoming final Chapter 8 of Concepts Statement 8 without testing those concepts against Topic 270?

The Cost Constraint

23. According to paragraph D17 of the proposed Concepts Statement, disclosures are subject to the same cost constraint that applies to financial reporting. Some feedback indicated that additional discussion of cost should be considered.

Question for the Board
6. Does the Board want to add to the discussion of cost in the proposed Concepts Statement and/or in the decision question appendix?

Completeness of the Disclosure Concepts

24. The proposed Concepts Statement contains concepts that would identify a broad range of possible disclosure requirements. To ensure that those concepts are complete, the Board sought feedback from constituents.

25. Questions 3 of the proposed Concepts Statement asks:

> Do the concepts in this chapter encompass the information appropriate for disclosure in notes to financial statements that would assist resource providers in their decision making? Are there concepts that should be added or removed?

26. The following question is asked in each Topic-level proposed Update:

Are there any other disclosures that should be required by Topic X on the basis of the proposed Concepts Statement or for other reasons?

Question for the Board
7. Does the Board want to add other concepts to the proposed Concepts Statement?

Other Issues

27. In addition to information about a line item, the proposed Concepts Statement guides the Board to consider:

    (a) Information about other past events and current conditions and circumstances that can affect an entity's cash flows (Decision Questions O1–O3)

    (b) Information about the reporting entity.

Information about Other Past Events and Current Conditions and Circumstances

28. The proposed Concepts Statement states:

> D51. There are a number of types of events, conditions, and circumstances that can affect the amounts or timings of an entity's future cash flows but that have not yet affected a line item. The Board should consider requiring information about such events, conditions, and circumstances subject to the cost constraint and other limitations on information to be provided in notes.

29. Decision Questions O1–O3 operationalize this concept:

Question O1

Can any of the following events or conditions create a possibility that a user's assessment of an entity's future cash flows would be significantly different (lower or higher):

a. Potential litigation against the entity or by the entity against another entity or entities (because of specific matters instead of general business risk)
b. Existing litigation against the entity or by the entity against another entity or entities, the outcome of which is still uncertain
c. Suspected or known violations by the entity of laws, regulations, or contractual terms or violations of the entity's rights under statutes, regulations, or contracts
d. Other uncertain conditions?

Information to Be Considered for Disclosure

a. The existence and description of the event or condition

b. Whether the effect of the event or condition would involve the entity's routine and frequent business activities or would have an infrequent or one-time effect on an entity's cash flows
c. Whether the event or condition itself is unique or infrequent or is routine or frequent
d. A current measure of the possible effect of the event or condition on an entity's future cash flows
e. The entity's judgment about the probability that the event or condition will affect the entity's future cash flows.

If the entity has plans that it believes may minimize decreases or maximize increases in net cash inflows, it may describe those actions and should explain whether the amounts disclosed as possible effects on future cash flows assume that the planned actions will be effective. In other words, if the disclosure assumes that the entity will be able to minimize a probable loss or maximize a probable gain, disclose that fact. Unless the entity has prior experience in successfully minimizing that type of loss or maximizing that type of gain, the more pessimistic amount also should be disclosed (assuming the minimizing or maximizing plans fail).

Question O2

Are there other events or circumstances that are not represented by an asset or a liability and a gain or loss (or income or expense) in an entity's financial statements but for which there is uncertainty in the decision about whether it should be recognized (that would include items other than the contingencies discussed in Questions O1(a) and O1(b))?

Information to Be Considered for Disclosure

a. The existence and description of the event or condition
b. Uncertainties that were assessed in deciding not to recognize an asset or liability and gain or loss (income or expense) and the reason for that decision
c. Whether events or conditions of the same type are routine and frequent or would have an infrequent or one-time effect on cash flows
d. Whether the event or condition itself is unique or infrequent or is routine or frequent
e. A current measurement of the possible effect of the event or condition on future cash flows
f. The entity's judgment of the probability that the event or condition will affect future cash flows.

Question O3

Are there contractual rights or obligations arising from past transactions and events or current conditions and circumstances that are expected to meet the criteria for recognition by the entity in the future?

Information to Be Considered for Disclosure

a. Unrecognized obligations
b. Future payments related to unrecognized obligations.

30. Question 5 of the proposed Concepts Statement asks:

> Do the decision questions in Appendix A identify the information appropriate for the Board to consider requiring for disclosure when setting standards related to line items and other past events and current circumstances and conditions that can assist resource providers in their decision making?

Information about the Reporting Entity

31. The proposed Concepts Statement guides the Board to consider certain information about the reporting entity for disclosure requirements. Such information includes:

    (a) Information about the entity and its activities

    (b) Restrictions, privileges, advantages, and disadvantages

    (c) Information about related parties and related party transactions

    (d) Disaggregation of legal entities and segments.

32. Question 6 of the proposed Concepts Statement asks:

> Does the discussion in paragraphs D43–D50 identify the information appropriate for the Board to consider when setting standards related to information about the reporting entity?

Question for the Board
8. In the proposed Concepts Statement, does the Board want to retain the discussion of: (a) Information about other past events and current conditions and circumstances? (b) Information about the reporting entity?

Overall Assessment Against the Purpose of the Conceptual Framework

33. The FASB Special Report, *The Framework of Financial Accounting Concepts and Standards,* states:[1]

> The FASB's conceptual framework is intended to be primarily a set of tools to help the Board in setting sound financial accounting standards and to help members of the Board's constituency not only understand and apply those standards but also contribute significantly to their development. It is not expected automatically to provide ready-made, unique, and obviously logical answers to complex financial accounting or reporting problems, but it should help to solve them by
>
> - Providing a set of common premises as a basis for discussion
> - Providing precise terminology

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- Helping to ask the right questions
- Limiting areas of judgment and discretion and excluding from consideration potential solutions that are in conflict with it
- Imposing intellectual discipline on what traditionally has been subjective and ad hoc reasoning process.

Question for the Board
9. Does the Board think that the proposed Concepts Statement meets the purpose of the Conceptual Framework?

FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Codification Improvements

November 1, 2017

Meeting Purpose

1. The purpose of this meeting is to provide the Board with feedback from the comment letters received on the amendments in the proposed Accounting Standards Update, *Codification Improvements to Topic 995, U.S. Steamship Entities—Elimination of Topic 995,* and to suggest changes to the final Update on the basis of those comments. Because the only proposed change to the amendments in the final Update is the addition of transition guidance, the staff plans to ask the Board for permission to add the proposed transition guidance and to proceed to vote by written ballot.

Questions for the Board
1. Does the Board want to affirm its decision to supersede Topic 995?
2. Does the Board agree with the proposed changes to the effective date? If not, what effective date would the Board prefer?
3. Does the Board agree with adding the proposed transition guidance? If not, what changes would the Board suggest?
4. Subject to any changes suggested by the Board during this meeting, does the staff have permission to prepare a draft of a final Update for a vote by written ballot?

Issue Background

2. Topic 995 provides recognition and disclosure guidance for a special area in which deferred taxes are not recognized in accordance with Topic 740, Income Taxes. Steamship entities can accumulate capital construction funds through a tax-deferred program made available in the Merchant Marine Act of 1936. The Maritime Administration (MARAD) administers the program for U.S. steamships. The National Oceanic and Atmospheric Administration (NOAA) handles the program for fishing entities that became eligible to participate through the Merchant Marine Act of 1970. Participation in the program is contractual in nature, and the participant has 25 years from the first deposit to use the funds under an approved capital expenditure plan. Withdrawals made in years 25–30 are taxed at the highest marginal tax

rate with additional increasing penalties on the accumulated deposits that escalate from 20 percent in year 25 to 100 percent of the remaining balance in year 30.

3. The Board considered removing this special exception to recognizing deferred taxes when deliberating on FASB Statement No. 109, *Accounting for Income Taxes*. Instead, the Board decided that the deferred taxes for deposits made before December 15, 1992, could remain unrecognized, but that the entity would have to disclose the amounts and types of taxes deferred each year. Deferred taxes would be recognized for all deposits made after December 15, 1992. The last deposits that would be eligible for this recognition exception become subject to the Merchant Marine Act 25-year limitation on December 15, 2017, and would become subject to taxes and penalties.

4. At its May 3, 2017 meeting, the Board decided to supersede Topic 995 in its entirety and require the recognition of any remaining deferred income taxes related to statutory reserve deposits made on or before December 15, 1992.

Comment Letter Feedback

5. The staff received three comment letters, and all respondents agreed with superseding Topic 995 in its entirety. The comments received focused on transition and effective date concerns. Two respondents suggested that at least one interim period after issuance of the amendments in the final Update be provided for transition. Two questioned the need for a disclosure of amounts recognized as a result of adopting the amendments in the proposed Update.

6. The amendments in the proposed Update would require an entity that had to recognize any previously deferred income taxes because of the proposed amendments to disclose the types and amounts of temporary differences not previously recognized. This would be a one-time disclosure made in the period of adoption. Two respondents stated that they did not agree with the disclosure requirement. The explanation given in their responses indicated the requirement to be a permanent or recurring disclosure. The staff contacted both respondents to better understand their responses. After explaining that the disclosure was a one-time requirement upon adoption, both respondents agreed with the proposed one-time disclosure as part of the transition requirements.

7. In addition to the outreach to comment letter respondents, the staff also sent a copy of the proposed Update to Capital Construction Fund (CCF) managers at MARAD and NOAA requesting comments and/or feedback on the proposed elimination of Topic 995. No response was received from MARAD, but a response from the relevant program manager at

NOAA was received. The NOAA manager did not object to Topic 995 being superseded, and he stated that special transition guidance does not need to be provided.

Staff Recommendation

8. The staff recommends that the effective date of the amendments be changed from effective upon issuance to effective December 15, 2018, for all entities.

9. The staff is proposing the amendments in the final Update be effective for fiscal years and first interim periods beginning after December 15, 2018, with early adoption permitted for all entities. The staff also is proposing that the amendments in the final Update be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should disclose the amounts and types of temporary differences for which a deferred tax liability had not previously been recognized.