

MINUTES



MEMORANDUM

**To:** Board Members  
**From:** Insurance Team  
(Pooley x445)  
**Subject:** Minutes of April 16, 2014, Board Meeting on Insurance  
**Date:** April 23, 2014  
**cc:** Sutay

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.*

Topic: Insurance

Basis for Discussion: FASB Memo 114: Long-Duration Contracts Background and Potential Targeted Improvements  
FASB Memo 115: Short-Duration Contracts Background and Potential Disclosures  
FASB memo 117: Objective and Project Plan

Length of Discussion: 10:30 AM to 11:30AM EST

Attendance:

Board members present: Golden, Kroeker, Buck, Linsmeier, Schroeder, Siegel, Smith  
Board members absent: None  
Staff in charge of topic: M. Brown  
Other staff at Board table: Cosper, Proestakes, Richer, Shah, Brickman, Pooley, Konetzke  
Outside participants: None

**Type of Document and Timing Based on the Technical Plan:**

The Board discussed which targeted improvements to the accounting for long-duration contracts and which potential disclosures about short-duration contracts should be included in the scope of the insurance project. The Board did not discuss whether reinsurance issues should be included in the scope of the insurance project, pending completion of stakeholder outreach.

**Tentative Board Decisions:**

*Long-Duration Contracts*

For long-duration contracts, the Board decided that the following targeted improvements should be included in the scope of the insurance project for deliberation at future Board meetings:

1. Liability for future policy benefits:
  - a. Whether assumptions should be updated periodically
  - b. If assumptions should be updated, how often assumptions should be updated
  - c. If assumptions should be updated, how the effects of the changes in assumptions should be recognized in the financial statements
  - d. What discount rate should be used for reflecting the time value of money in measuring the liability for future policy benefits
  - e. Whether reporting entities should disclose specific information about the methods and assumptions used in determining the liability for future policy benefits, including the discount rates used
  - f. How reporting entities should measure certain options and guarantees that do not meet the criteria to be accounted for under Subtopic 815-10 or Subtopic 815-15 (on derivatives and hedging)
  - g. Whether the liability for future policy benefits should include a provision for adverse deviation.

Vote: 7-0

2. Deferred acquisition costs:
  - a. How deferred acquisition costs should be amortized

- b. If deferred acquisition costs should be amortized using estimated gross profits and estimated gross margins, whether adjustments should be retrospective or prospective
- c. If retrospective unlocking is required, whether reporting entities should disclose information about the determination and future effects of retrospective unlocking
- d. Whether reporting entities should disclose a rollforward of deferred acquisition costs.

Vote: 7-0

3. Premium deficiency and loss recognition:

- a. Whether the level of aggregation for performing the premium deficiency analysis should be clarified
- b. Whether certain disclosures should be required, such as the current loss recognition margin, level of aggregation, significant assumptions, and the amount of premium deficiency recorded during the period.

Vote: 7-0

4. Revenue recognition:

- a. Whether certain disclosures should be required, such as amounts included in revenue that are required to be returned to policyholders or their beneficiaries regardless of whether an insured event occurs

Vote: 5-2

The Board will consider the unit of account when deliberating the topics included in the scope of the insurance project. The Board also directed the staff to provide information about the cash flows that are included in the liability for future policy benefits for possible consideration at a future meeting.

*Short-Duration Contracts Disclosures*

The Board decided to include the following potential disclosure requirements in the scope of the insurance project for deliberation at a future Board meeting:

- 1. Incurred and paid loss development tables
- 2. Claim reserve duration in time bands
- 3. Information about the frequency and severity of claims
- 4. Qualitative and quantitative information about claims estimates

5. Information about premium deficiency testing
6. If a reporting entity discounts the liability for unpaid claims and claim adjustment expenses, the effects of discounting.

Vote: 7-0

The Board directed the staff to gather information about compliance and audit costs for inclusion in future analyses of the potential disclosure requirements. The Board also decided to explicitly consider whether the disclosures should be provided for both interim and annual periods.

The Board also directed the staff to perform additional analysis on whether management should disclose a hypothetical discount rate for claim liabilities that are not discounted in the financial statements.

*Project Plan*

The Board agreed to conduct the insurance project in two parts, one focused on disclosures about short-duration contracts and the other focused on targeted improvements to the accounting for long-duration contracts.

Vote: 7-0

**General Announcements:**

None.