

MINUTES



MEMORANDUM

To: Board Members
From: Insurance Team
(Pooley x445)
Subject: Minutes of June 4, 2014, Board Meeting on Short-Duration Contracts
Date: June 13, 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—Disclosures about Short-Duration Contracts

Basis for Discussion: FASB Memo 118: Claims Liabilities and Other Disclosures
FASB Memo 119: Discounting-Related Disclosures
FASB Memo 120: Other Considerations

Length of Discussion: 8:00 AM to 10:20 AM

Attendance:

Board members present: Golden, Kroeker, Linsmeier, Schroeder, Siegel, Smith

Board members absent: Buck

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 met to discuss issues relating to the development of a FASB Accounting Standards Update addressing disclosures by insurance entities about short-duration insurance contracts.

The Board has not yet determined the timing of the release of that Update.

Tentative Board Decisions:

The Board discussed which potential disclosures about short-duration contracts should be required.

Disclosure Requirements

The Board decided to require all insurance entities that issue short-duration contracts to disclose the following information, aggregated or disaggregated so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics, in annual financial statements:

Incurred and paid claims development tables

1. Information about incurred claims and claim adjustment expenses and paid claims and claim adjustment expenses, on a net basis after risk mitigation (that is, through reinsurance), by comparing the most recent 10 years in which claims were first reported (claims development)
2. Reconciliation of the net amount of cumulative incurred and paid claims to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses recognized in the statement of financial position, with separate disclosure of ceded reinsurance that is disaggregated in the same way that a reporting entity disaggregates its disclosure of claims development.

(Vote: 6 to 0, 1 abstained)

Frequency and Severity of Claims

1. Information about the number of reported claims that affect incurred claims and allocated claim adjustment expenses
2. Information about the amount of incurred but not reported liabilities included in the claims development tables.

(Vote: 7 to 0)

Discounting

1. For liabilities of unpaid claims and claim adjustment expenses that are presented at present value in the financial statements, the effects of discounting on the financial statements, including the aggregate amount of discount deducted from the liability for unpaid claims and claim adjustment expenses, the amount of interest recognized during the period, and the line item(s) in which the interest accretion is classified
2. Based on the information in the paid claims development tables, the percentage payout of claims for each of the most recent 10 accident years.

(Vote: 7 to 0)

The Board decided that reporting entities that issue health insurance contracts would be subject to the same disclosure requirements as other insurance entities that issue short-duration contracts.

(Vote: 5 to 1, 1 abstained)

The Board decided to require disclosures about material changes in judgments made in calculating the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements, in both interim and annual financial statements.

(Vote: 4 to 2, 1 abstained)

The Board decided that the requirement to disclose information about the liability for unpaid claims and claim adjustment expenses in paragraph 944-40-50-3 should be required for interim periods as well as for annual reporting periods.

(Vote: 7 to 0)

Transition and Effective Date

The Board made the following decisions about transition:

1. Upon initial application of these disclosure requirements, an insurance entity would provide comparative disclosures for each prior period presented, except for the disclosure of incurred and paid claims development tables and the disclosure of the details about material changes in judgments made in calculating the liability for unpaid claims and claim adjustment expenses, which would be applied prospectively.
2. An insurance entity would not be required to disclose information about claims development that occurred earlier than five years before the end of the first financial reporting year in which the guidance is first applied.

3. An insurance entity would not be required to apply the transition disclosure guidance in Subtopic 250-10 on accounting changes and error corrections.

(Vote: 7 to 0)

Next Steps

The Board directed the staff to draft the disclosure requirements to reflect the Board's tentative decisions and to perform additional outreach about auditing considerations for disclosures of incurred and paid claims development tables and considerations about the costs and benefits of disclosures about claims development and claims frequency for health insurance entities. The Board will evaluate its disclosure decisions and the need to issue a revised proposed Update in light of that feedback.

General Announcements: None.