Insurance Contracts Public Roundtable Meeting
December 16, 2013
1:00 p.m. – 5:00 p.m.

Westin O'Hare Hotel
6100 North River Road
Rosemont, Illinois

AGENDA

Welcome and Introduction

We have arranged this roundtable meeting to listen to your views and to further develop our understanding of the issues you raise or alternatives you propose in your comment letters pertaining to the proposed FASB Accounting Standards Update, *Insurance Contracts (Topic 834).*

We expect to cover the following topics:

- Topic 1: Scope and Scope Exceptions
- Topic 2: Determining the Measurement Approach
- Topic 3: Discount Rate and Discounting
- Topic 4: Liability for Incurred Claims (PAA)
- Topic 5: Changes in Fulfillment Cash Flows and Margin (BBA)
- Topic 6: Insurance Contract Revenue
- Topic 7: Definition of a Portfolio and Contract Boundary
- Topic 8: Disclosure
- Topic 9: Nonpublic Entity Considerations

We plan to spend 20-30 minutes per topic (depending on interest) and will then allow some time for all participants to raise any additional issues they would like to discuss at the end of the session.

Topic 1: Scope and Scope Exceptions

1. The guidance in the proposed Update would apply to all entities that issue insurance contracts or that hold reinsurance contracts, unless those contracts are specifically excluded from the scope of the proposed Update.
2. An insurance contract is defined as contract under which one party (the issuing entity) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or its designated beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder.
3. The guidance in the proposed Update excludes certain contracts from the scope, including:
   a. Fixed-fee service contracts that have as their primary purpose the provision of services and that meet all of the following conditions
      i. The price of the contract is not based on an assessment of the risk associate with an individual customer unless that assessment is limited to consideration of the customer's credit risk.
      ii. The contract compensates customers by providing a service rather than by making a cash payment to the customer or to a third-party provider.
      iii. The insurance risk transferred by the contract arises primarily from uncertainty about the utilization of the policyholder's use of services (that is, frequency risk) relative to the overall risk transferred in the contract.
   b. Product warranties issued by a manufacture, dealer, or retailer.
   c. Employers' assets and liabilities under employee benefit plans and retirement benefit obligations.
   d. Employer provided insurance.
   e. Guarantees that are addressed in certain other Topics or contracts that have any of the following characteristics:
      i. A guarantee or an indemnification of an entity's own future performance.
      ii. A guarantee that does not expose the counterparty to risk throughout the term of the guarantee.
      iii. A guarantee that is both unusual or nonrecurring and unrelated to the type of risk that is the subject of other guarantees issued by the entity.

Scope and Scope Exceptions —Discussion Questions
1. Do you agree with the scope and scope exceptions of this proposed guidance, including its applicability to contracts written by noninsurance entities? If not, what types of contracts or transactions also should be included or excluded from the scope and why?

Topic 2: Determining the Measurement Approach

4. The guidance in the proposed Update would require that an entity apply the Premium Allocation Approach (PAA) if either of the following characteristics are present:
    a. The coverage period of the insurance contract (determined in accordance with the boundary of the contract) is one year or less.
    b. At contract inception, it is unlikely that during the period before a claim is incurred there will be significant variability in the expected value of the net cash flows required to fulfill the contract.
5. All of the following are indicators that an entity would consider in assessing whether at contract inception significant variability in the expected fulfillment cash flows is likely during the period before a claim is incurred:
    a. The existence of minimum guarantees of benefits or options may indicate significant variability in expected net cash flows.
    b. An entity expects at contract inception that during the contract's coverage period it will significantly change premium pricing for future contracts written with similar or identical risks. That may indicate significant variability in net cash flows for the existing contract.
    c. The longer the coverage period of a contract, the more likely it is that there will be a significant change in the expected net cash flows before a claim is incurred.
    d. Some cash flow changes are likely but will not significantly contribute to expected variability in those cash flows at contract inception.
6. If a contract does not meet either of the characteristics of a PAA contract as described above, the entity would follow the Building Block Approach (BBA)

Determining the Measurement Approach—Discussion Questions
1. Do you agree that entities should apply different approaches to contracts with different, characteristics, described as the BBA and the PAA? If not, which model should exist? 2. Do you agree that entities should be required to apply the PAA if the coverage period of the insurance contract, considering the contract boundary guidance, is one year or less? 3. Do you agree that entities should be required to apply the PAA if, at contract inception, it is unlikely that during the period before a claim is incurred there will be significant variability in the expected value of the net cash flows required to fulfill the contract?

Topic 3: Discount Rate and Discounting

7. The guidance in the proposed Update would require that entities reflect the time value of money when measuring the insurance contract assets/liabilities. The discount rate would reflect the characteristics of the insurance contract asset/liability and would do both of the following:

   a. Be consistent with observable current market prices for instruments with cash flows whose characteristics reflect those of the insurance contract liability, in terms of, for example, timing, currency, and liquidity

   b. Exclude any factors that influence the observed rates but are not relevant to the insurance contract liability.

8. An entity may use a "top-down" approach that starts with the yield curve for the actual portfolio of assets held (or reference portfolio of assets) adjusted to remove factors not relevant to the insurance contract liability, or a "bottom-up" approach that begins with a risk-free yield curve that has the same duration as the liability and is adjusted for risk characteristics such as liquidity.

9. These discount rates would be updated to reflect all available information at the end of the reporting period, including the changes in the characteristics of the portfolio of insurance contracts.

10. An entity would recognize changes in fulfillment cash flows due to changes in the discount rates in other comprehensive income.

Discount Rate and Discounting—Discussion Questions
1. Do you agree that the discount rates should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability? 2. Do you agree that the method for calculating the discount rates should not be prescribed? 3. Do you agree that the discount rates used to reflect the time value of money of the insurance contract assets and liabilities should be updated periodically to reflect all available information at that time? 4. Do you agree that an entity should discount the liability for incurred claims under the PAA? 5. Do you agree that an entity should segregate the effects of underwriting performance from the effects of changes in discount rates by recognizing changes in the present value of the fulfillment cash flows due to changes in the discount rates in other comprehensive income?

Topic 4: Liability for Incurred Claims (PAA)

11. The guidance in the proposed Update would require that upon the occurrence of insured events, an entity should recognize the liability for incurred claims, measured on the basis of the explicit, unbiased, probability-weighted estimate (that is, the mean) of the present value of future cash flows to settle the claims and related expenses.

12. An entity would update the measurement of the liability for incurred claims at the end of each reporting period with any changes in the measurement recognized in net income (other than changes due to changes in the discount rates, which would be recognized in other comprehensive income).

Liability for Incurred Claims (PAA)—Discussion Questions
1. Do you agree that the liability for incurred claims should be based on an explicit, unbiased, and probability-weighted estimate (that is, the mean) of the future cash flows, as of the reporting date, expected to arise as the entity fulfills the contract?   2. Do you agree that the measurement of the liability for incurred claims should be updated at the end of each reporting period with changes in the measurement recognized in net income?

Topic 5: Changes in Fulfillment Cash Flows and Margin (BBA)

13. For contracts accounted for using the BBA model, an entity would measure a portfolio of insurance contracts initially as the following:
    a. The fulfillment cash flows.
    b. A margin measured as the fulfillment cash inflows in excess of the fulfillment cash outflows. If the fulfillment cash inflows less expected qualifying acquisition costs are less than the fulfillment cash outflows, an immediate loss in net income would be recognized.
14. The margin would include:
    a. The present value of expected qualifying acquisition costs to be incurred (that is, only those qualifying acquisition costs that will be paid in the future)
    b. Less the qualifying acquisition costs not yet recognized as an expense. If the fulfillment cash inflows less expected qualifying acquisition costs are less than the fulfillment cash outflows, an insurer would recognize an immediate loss in net income.
15. An entity would recognize changes in the fulfillment cash flows in net income (except for changes due to changes in the discount rates as described above in Topic 3).
16. If the expected cash outflows (including expected qualifying acquisition costs) of a portfolio of insurance contracts exceed the expected cash inflows, an entity would recognize the remaining margin as revenue in net income.

Changes in Fulfillment Cash Flows and Margin (BBA)—Discussion Questions
1. Do you agree that all of the assumptions used in the measurement of the fulfillment cash flows should be updated at each reporting period? 2. Do you agree with the approach to recognize changes in estimates of cash flows (other than the effect of changes in the discount rates) in net income in the reporting period? 3. Do you agree that if the expected cash outflows (including qualifying acquisition costs) of a portfolio of insurance contracts will exceed the expected cash inflows, an entity should recognize the remaining margin immediately in net income? 4. Do you agree that the measurement of the margin should be reduced for direct acquisition costs incurred?

Topic 6: Insurance Contract Revenue

17. For contracts accounted for using the PAA model, the guidance in the proposed Update would require that an entity reduce the measurement of the liability for remaining coverage, gross of the qualifying acquisition costs incurred, and recognize a corresponding amount of revenue, in proportion to the value of coverage that the insurer has provided. That amount of revenue would be based on the passage of time or on the expected timing of incurred claims and benefits if that pattern differs significantly from the passage of time.

18. For contracts accounted for using the BBA model, the guidance in the proposed Update would require that an entity recognize revenue from premiums attributable to the fulfillment cash flows from a portfolio of contracts over the coverage period in proportion to the value of coverage and any other services that the insurer has provided. An entity would recognize the margin as revenue over the coverage and settlement periods as the entity satisfies its performance obligation to stand ready to compensate the policyholder on occurrence of a specified event that adversely affects the policyholder.

19. If a feature of an insurance contract requires an entity to pay amounts to policyholders or their beneficiaries regardless of whether an insured event occurs (estimated returnable amount), an entity would exclude both of the following:

    a. From revenue, the amounts that have been received from the policyholder, plus accretion of interest on those amounts, for such repayments

    b. From expenses for claims and benefits, the amounts related to the insurance contract premium excluded from revenue in (a).

20. The guidance in the proposed Update also would require that an entity consider the portion of cash flows that are contingent on claims or benefits experience (that is, loss sensitive features) as part of claims and benefits cash flows.

Insurance Contract Revenue—Discussion Questions
1. Do you agree with the proposed method(s) of recognizing the liability for remaining coverage in net income (that is, in proportion to the amount of coverage provided in that reporting period) and the margin (that is, as the entity is released from risk under the insurance contracts as evidenced by a reduction in the variability of cash outflows)?   2. Do you agree that, for all contracts, (a) revenue should exclude any amounts received that an entity is obligated to repay to policyholders or their beneficiaries regardless of whether an insured event occurs and (b) expenses should exclude the corresponding repayment of those amounts?   3. Do you agree that the resulting cash flows from contract features that are contingent on claims or benefits experience should be included as part of the claims and benefits cash flows?

Topic 7: Definition of a Portfolio and Contract Boundary

21. The guidance in the proposed Update would define a portfolio of insurance contracts as a group of insurance contracts that both:
    a. Are subject to similar risks and priced similarly relative to the risks taken on
    b. Have similar duration and similar expected patterns of release from risk, that is, reduction in variability of cash flows.
22. The contract boundary would be the point at which the entity no longer has a substantive obligation to provide the policyholder with coverage, which occurs when either of the following takes place:
    a. For an individual contract, the entity is no longer required to provide coverage or has the right or the practical ability to reassess the risk of the particular individual policyholder and, as a result, can set a price or level of benefits that reflects that risk.
    b. For a portfolio of contracts, if both of the following criteria are satisfied:
        i. The entity has the right or the practical ability to reassess the risk of the portfolio that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio.
        ii. The pricing of the insurance contract premiums for coverage up to the date that the risks of the portfolio are reassessed does not take into account risks relating to future periods.
23. An entity would determine the boundary of an insurance contract considering all substantive rights held by the policyholder, whether arising from contract, law, or regulation. An entity would reassess its determination of the boundary of an insurance contract at each reporting period to the extent that there are changes in contractual features.

Definition of a Portfolio and Contract Boundary—Discussion Questions
1. Do you agree with the definition of a portfolio of insurance contracts as included in the proposed Update?   2. Do you agree with the requirements included in the proposed Update on contract boundary (that is, the requirements that establish how to identify the future cash flows that will arise as the insurer fulfills its obligations)?

Topic 8: Disclosure

24. The guidance in the proposed Update would require an entity to disclose qualitative and quantitative information about all of the following:
    a. The amounts recognized in its financial statements arising from insurance contracts
    b. The significant judgments and changes in judgments made in applying the guidance in Topic 834
    c. The nature and extent of the risks arising from insurance contracts.
25. The guidance in the proposed Update would require an entity to disclose reconciliations from the opening to the closing balances of all of the following:
    a. Liability for incurred claims
    b. The insurance contract liabilities for the fulfillment cash flows
    c. The insurance contract assets for the fulfillment cash flows
    d. The insurance contract margin
    e. Reinsurance assets or liabilities arising from reinsurance contracts held by the ceding entity (cedant).
26. For reconciliations required by the guidance in the proposed Update, an entity would provide information that depicts new contracts, cash flows, changes in assumptions, and derecognition of contracts.
27. An entity would aggregate or disaggregate disclosures 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.
28. An entity would disclose a narrative description of the sensitivity of the insurance balances to changes in inputs used in the measurement of those balances if a change in those inputs to a different amount might result in a significantly higher or lower measurement in those balances.

Disclosure—Discussion Questions
1. Do you agree with the disclosure requirements included in this proposed Update? If not, which would you change, add, or remove and why? 2. Do you agree that the disclosure requirements in this proposed Update would provide decision-useful information to users?

Topic 9: Nonpublic Entity Considerations

29. The guidance in the proposed Update would require nonpublic entities to adopt the guidance in the same manner as public entities other than the following:
    a. Nonpublic entities would be exempt from applying the required disclosures by reportable segment.
    b. Nonpublic entities would also be exempt from providing the required disclosures on an interim reporting basis.
    c. The effective date for nonpublic entities would likely be a minimum of one year after the effective date for public entities.

Nonpublic Entity Considerations—Discussion Questions
1. Do you agree that nonpublic entities should be required to adopt the guidance in proposed Update to the same extent as public entities (considering the practical expedients)? If not, which sections of the guidance should or should not be applicable to nonpublic entities and why? 2. Do you agree that the practical expedient relating to disclosure requirements in this proposed Update are practicable and would facilitate implementation for nonpublic entities? 3. Do you think the effective date should be the same for both public and nonpublic entities? Why or why not?

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Participants	**Organization**
Matthew Heimermann	457 Investors, LLC
George Ohsiek	ACE insured
Bill Schwegler	Aegon / Transamerica
Brent Scheer	Agents National Title Insurance Co
Kevin Spataro	Allstate Insurance Company
Rowen Bell	American Academy of Actuaries
Michael Gullette	American Bankers Association
Alan Close	American Council of Life Insurers
Steve Gathje	Ameriprise Financial, Inc.
Melanie Pinto	Annaly Capital Management, Inc.
Michael Edwards	Baldwin & Lyons, Inc.
Ian Gutterman	Balyasny Asset Management, L.P. (BAM)
Rick Sojkowski	Deloitte & Touche LLP
Mark Reese	EMC Insurance Group Inc.
Richard Lynch	Ernst & Young LLP
Michelle Rogers	National Association of Mutual Insurance Companies
Michael Reis	Northwestern Mutual
Donald Doran	PricewaterhouseCoopers LLP
Paul Newsome	Sandler O'Neill and Partners
Dave Christensen	United Services Automobile Association

FINANCIAL ACCOUNTING STANDARDS BOARD

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FASB and IASB Participants

Jim Kroeker	FASB Vice Chairman
Tom Linsmeier	FASB Board Member
Larry Smith	FASB Board Member
Marc Siegel	FASB Board Member
Sue Cosper	FASB Technical Director
Peter Proestakes	FASB Assistant Director
Meredith Brown	FASB Practice Fellow (Project Manager)
Jeremie Richer	FASB Assistant Project Manager
Jay Shah	FASB Project Research Associate
Andrea Laos	FASB Postgraduate Technical Assistant
Patrick Finnegan	IASB Board Member