

MINUTES



MEMORANDUM

To: Board Members
From: Insurance Team (Kallner x399)
Subject: Minutes of October 28, 2015 Board Meeting on Targeted Improvements to the Accounting for Long-Duration Contracts
Date: October 30, 2015
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—Targeted Improvements to the Accounting for Long-Duration Contracts

Basis for Discussion: FASB Memo 138: Conforming Changes to Participating Life Insurance Contracts

Length of Discussion: 10:15 AM to 10:30 AM

Attendance:

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

Board members absent: Siegel

Staff in charge of topic: Casas

Other staff at Board table: Cosper, Proestakes, Brickman, Shah, Rizzuto, Kallner

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss topics relating to the development of new guidance in a proposed FASB Accounting Standards Update addressing targeted improvements to the accounting for long-duration insurance contracts.

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

Tentative Board Decisions:

The Board decided that the liability for future policy benefits for participating life insurance contracts would be calculated on the basis of expected future cash flows (including dividends). Future cash flows would be discounted using a high-quality fixed-income instrument yield, consistent with the Board's previous decision for traditional long-duration and limited-payment contracts.

(Vote: 6 to 1)

The Board also decided that entities would be required to update (1) cash flow assumptions using a retrospective approach and (2) discount rate assumptions using an immediate approach, consistent with the Board's previous decision for traditional long-duration and limited-payment contracts. Under this assumption update method, the net premium ratio would be recalculated as of the contract inception date using actual historical experience and updated future cash flow assumptions. The revised net premium ratio would then be applied to derive a cumulative catch-up adjustment to be recorded in current-period earnings. In subsequent periods, the revised net premium ratio would be used to accrue the liability for future policy benefits. The net premium ratio would be capped at 100 percent. The net premium ratio would not be updated for discount rate changes; rather, the effect of changes in the discount rate assumption would be recorded immediately in other comprehensive income. The amount included in accumulated other comprehensive income would represent the difference between the carrying amount of the liability for future policy benefits measured using an updated discount rate and the discount rate at contract inception.

(Vote: unanimous)

Next Steps

The Board will continue to deliberate other targeted improvements to accounting for long-duration contracts.

General Announcements:

None.