

MINUTES



MEMORANDUM

To: Board Members
From: Insurance Team (Meek x442)
Subject: Minutes of October 4, 2017 Board Meeting on Insurance—Targeted Improvements to the Accounting for Long-Duration Contracts
Date: October 11, 2017
cc: Tosches

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 158: Liability for Future Policy Benefits—Participating Insurance Contracts

FASB Memo 159: Deferred Acquisition Costs

FASB Memo 160: Market Risk Benefits

Length of Discussion: 10:15 AM to 11:15 AM

Attendance:

Board members present: Golden, Botosan, Hunt, Kroeker, Monk, Siegel, Schroeder

Board members absent: None

Staff in charge of topic: Casas

Other staff at Board table: Cosper, Proestakes, Shah, Brickman, Meek, Klopfenstein

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss topics relating to the development of a final Accounting Standards Update addressing Topic 944, Financial Services—Insurance.

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

Tentative Board Decisions:

The Board redeliberated the amendments in proposed Accounting Standards Update, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The meeting topics discussed were participating insurance contracts, deferred acquisition costs, and market risk benefits.

Participating Insurance Contracts

The Board voted to retain the existing guidance for the liability for future policy benefits for participating insurance contracts. The proposed changes to the amortization of deferred acquisition costs should apply to participating insurance contracts.

(Vote: 7-0)

Deferred Acquisition Costs

The Board voted to affirm its decision to simplify the amortization of deferred acquisition costs with the following modification: the amortization method in the proposed Update should be replaced with a principle in which deferred acquisition costs would be amortized on a constant basis over the expected life of the contract.

(Vote: 7-0)

The Board voted to affirm that deferred acquisition costs should be written off for actual experience in excess of expected experience, without consideration of contract profitability.

(Vote: 7-0)

The Board voted to align the deferred acquisition costs transition method with the transition guidance for the liability for future policy benefits that was decided upon at the August 2, 2017 Board meeting. Specifically, an insurance entity should apply the proposed amendments on the amortization of deferred acquisition costs to the existing carrying amount at the transition date, adjusted for the removal of any related amounts in accumulated other comprehensive income. An insurance entity

would have the option to apply the proposed amendments retrospectively (with a cumulative catch-up adjustment to the opening balance of retained earnings) using actual historical experience information. For consistency, the same transition method would apply to both the liability for future policy benefits and deferred acquisition costs. The option would be elected at the same issue-year level and would be applied entity-wide for that issue year and all subsequent issue years.

(Vote: 7-0)

Market Risk Benefits

The Board voted to expand the market risk benefit scope to include general account deposit (or account balance) products (for example, fixed indexed annuities). The Board directed the staff to present the revised market risk benefits criteria at a future meeting for further discussion.

(Vote: 7-0)

The Board voted to affirm that market risk benefits should be measured at fair value.

(Vote: 7-0)

The Board voted to affirm that changes in fair value should be presented in net income, except for changes in fair value attributable to changes in instrument-specific credit risk, which should be presented in other comprehensive income.

(Vote: 5-2)

The Board voted to require entities to apply the proposed amendments to market risk benefits retrospectively to all prior periods. An insurance entity would be allowed to use hindsight.

(Vote: 7-0)

Next Steps

In future meetings, the Board will discuss market risk benefits, presentation and disclosures, and effective date.

General Announcements: None.