FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Insurance Contracts Roundtable Meeting
December 2, 2013
9:00 a.m. – 12:00 p.m.

Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut

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 Building Block Approach as defined in the proposed FASB Accounting Standards Update, *Insurance Contracts (Topic 834)*.

We expect to cover the following topics:

- Topic 1: Discount Rate and Discounting
- Topic 2: Changes in Fulfillment Cash Flows and Margin
- Topic 3: Insurance Contract Revenue
- Topic 4: Definition of a Portfolio and Contract Boundary
- Topic 5: Disclosure
- Topic 6: Transition

We plan to spend 30-45 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: Discount Rate and Discounting

1. The guidance in the proposed Update would require that entities reflect the time value of money when measuring the fulfillment cash flows attributable to insurance contract assets/liabilities. The discount rate would reflect the characteristics of the insurance contract 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.
2. 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.
3. 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.
4. 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 used by the entity for nonparticipating contracts 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 asset/liability and margin should be updated periodically to reflect all available information at that time? 4. 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 2: Changes in Fulfillment Cash Flows and Margin

5. Under the building block approach (BBA), 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.
6. 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.
7. 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).
8. 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—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 3: Insurance Contract Revenue

9. 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.

10. The guidance in the proposed Update also would require that an entity 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.

11. 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).

Insurance Contract Revenue—Discussion Questions
1. Do you agree that users of financial statements would obtain relevant information that faithfully represents the entity's financial position and performance if, in net income, for all insurance contracts, an entity presents insurance contract revenue and incurred expenses, rather than only information about changes in margins (that is, the net profit)?
2. Do you agree with the proposed method(s) of recognizing 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)?
3. Does the guidance in the proposed Update contain sufficient guidance on how to determine insurance contract revenue in accordance with the principle that it should be allocated between reporting periods as performance obligations are satisfied over time (that is, to allocate consideration between periods by reference to the relative value of the services provided in each period)?
4. Do you agree that, for all contracts, (a) revenue should exclude any amounts received that an entity is obligated to pay to policyholders or their beneficiaries regardless of whether an insured event occurs and (b) expenses should exclude the corresponding repayment of those amounts?

Topic 4: Definition of a Portfolio and Contract Boundary

12. 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.
13. 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:
        (1) 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.
        (2) 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.
14. 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 5: Disclosure

15. 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.
16. The guidance in the proposed Update also would require an entity to disclose reconciliations from the opening to the closing balances of all of the following:
    a. The insurance contract liabilities for the fulfillment cash flows
    b. The insurance contract assets for the fulfillment cash flows
    c. The insurance contract margin
    d. Reinsurance assets or liabilities arising from reinsurance contracts held by the ceding entity (cedant).
17. 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.
18. 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.
19. 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. If there are interrelationships between those inputs, an entity also would provide a description of those interrelationships and how they might magnify or mitigate the effect of changes in the inputs on the measurement of insurance balances (that is, an entity would consider correlation between inputs). For purposes of this disclosure, an entity would not take into account inputs that are associated with remote scenarios.

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 6: Transition

20. The guidance in the proposed Update would require that an entity should apply the proposed guidance retrospectively to all prior periods. For contracts measured using the BBA, at the beginning of the earliest period presented (that is, the transition date), an entity would (a) measure the present value of the fulfillment cash flows in accordance with the guidance in the proposed Update using current assumptions at the date of transition and (b) determine the margin.

21. When determining the margin at transition, an entity can elect to use its determination of the portfolio immediately before the transition. If it is impracticable to determine the margin in applying the proposed guidance retrospectively to all prior periods, an entity would:

    a. Apply the proposed guidance retrospectively for as many previous periods as is practicable for each portfolio.

    b. For contracts issued in earlier periods for which retrospective application is considered to be impracticable, an entity would estimate what the margin would have been using objective information had the entity been able to apply the proposed guidance retrospectively.

    c. If it is impracticable to apply the proposed guidance retrospectively for other reasons or there is not objective information that is reasonably available, an entity would apply the general requirements of Subtopic 250-10, Accounting Changes and Error Corrections—Overall, for the determination of the margin.

22. If it would be impracticable to determine the discount rates as of the initial recognition of the portfolio of contracts, an entity would use the following discount rates to determine the margin at transition and the interest accretion rates, as follows:

    a. Observable rates, at the initial recognition date, that approximate the calculated discount rates in accordance with the guidance in Topic 834, as proposed, for a minimum of three consecutive years before the effective date

    b. If there are no observable rates that approximate the calculated rates, an entity would determine the initial discount rates by applying a spread between the calculated rates and the observable rates (averaged over at least three consecutive years before the effective date) that most closely approximates the yield curve.

    c. If applicable, for portfolios of contracts for which the initially determined interest accretion rates would be adjusted in accordance with proposed paragraph 834-10-35-25, the interest accretion rates would be determined by applying a ratio between the calculated interest accretion rates in accordance with the proposed guidance and the observable rates averaged over a minimum of three consecutive years before the effective date

Transition—Discussion Questions
1. Do you agree that the practical expedients relating to transition included in the proposed guidance are sufficient for retrospective application (that is, are the transition provisions operable)? 2. Do you agree that the proposed approach to transition would provide users of financial statements with relevant information that faithfully represents the entity’s financial position and performance in a way that appropriately balances comparability with verifiability? 3. The Board will establish the effective date of the requirements when it issues the final amendments. What are the key drivers that would affect the timing of implementation? How do those drivers affect the time it will take to implement the proposed guidance?

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Participants	Organization
Steven Belcher	MetLife, Inc.
Jeffrey Bernstein	Cutwater Asset Management
Darryl Briley	KPMG LLP
Donald Doran	PricewaterhouseCoopers LLP
William Findlay	Assured Guaranty Ltd.
R. Scott Frost	Bank of America, Merrill Lynch
Kelly Groh	Genworth Financial, Inc.
John Hall	Wells Fargo Securities, LLC
Trevor Harris	Columbia Business School—CEASA
Gale Kelly	Canadian Accounting Standards Board
Joseph Longino	Sandler O'Neill + Partners, L.P.
Richard Lynch	Ernst & Young LLP
Jay Matalon	American International Group, Inc.
Mike Monahan	American Council of Life Insurers
Alex Obaza	T. Rowe Price
Yves Pinkowitz	Pacific Life Insurance Company
Len Reback	American Academy of Actuaries
Angie Sanders	Principal Financial Group
Henry Siegel	New York Life Insurance Company
Richard Sojkowski	Deloitte & Touche LLP
Erin Taylor	Manulife Financial Corporation
Kristine Toscano	Lincoln Financial Group
Alan Zimmermann	Assured Research, LLC

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FASB and IASB Participants

Russ Golden	FASB Chairman
Jim Kroeker	FASB Vice Chairman
Daryl Buck	FASB Board Member
Tom Linsmeier	FASB Board Member
Hal Schroeder	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
Patrick Finnegan	IASB Board Member