

MINUTES



MEMORANDUM

To: Board Members
From: Insurance Team (McClaskey x442)
Subject: Minutes of March 23, 2016 Board Meeting on Insurance—Targeted Improvements to the Accounting for Long-Duration Contracts
Date: March 25, 2016
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 145: Transition

FASB Memo 146: Preliminary Sweep Issues: Deferred Acquisition Costs and Value of Business Acquired

Length of Discussion: 9:00 AM to 9:40 AM

Attendance:

Board members present: Golden, Kroeker, Linsmeier, Schroeder, Siegel, and Smith
Board members absent: Buck
Staff in charge of topic: Casas
Other staff at Board table: Cosper, Proestakes, Shah, Brickman, Kallner, and McClaskey
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 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:

Transition

Liability for Future Policyholder Benefits

The Board decided that at the beginning of the earliest period presented (that is, “the transition date”), an insurance entity should apply the guidance on the liability for future policyholder benefits retrospectively to all prior periods for each level at which reserves are calculated. The Board decided to require alternative transition provisions for circumstances in which the historical information is unavailable or the application would be impracticable.

Specifically, an insurance entity would be required to apply the following transition methods:

1. Retrospectively to all prior periods using actual historical information at the level at which reserves are calculated.
 - a. If actual historical information covering the entire contract period is not available at the level at which reserves are calculated, an insurance entity would be required to use estimates for those periods in which actual historical information is not available. The historical information should be derived from objective information that is reasonably available.
 - b. An insurance entity should recognize in accumulated other comprehensive income the cumulative effect of changes in discount rates between the contract inception date and transition date.
2. If it is impracticable to apply the guidance retrospectively to all prior periods at the level at which reserves are calculated, an insurance entity should apply the guidance to in-force contracts on the basis of their existing carrying amounts at the transition date and updated future assumptions. The opening retained earnings balance should be adjusted to the extent that the net premium ratio exceeds 100 percent. The transition date should be considered the contract inception date for purposes of subsequent adjustments.

(Vote: unanimous)

Market Risk Benefits

The Board decided that at the transition date, an insurance entity should measure market risk benefits at fair value in accordance with the guidance. The transition adjustment should be recorded as follows:

1. The cumulative effect of changes in an entity's own credit risk between contract inception date and transition date should be recognized in accumulated other comprehensive income.
2. The difference between fair value and carrying value at the transition date, excluding the amount in (1), should be adjusted to opening retained earnings.

(Vote: unanimous)

Deferred Acquisition Costs

The Board decided that the guidance on deferred acquisition costs should be applied as of the transition date on the basis of the existing carrying amounts at that date, adjusted for the removal of any related amounts in accumulated other comprehensive income.

(Vote: unanimous)

Transition-Related Disclosures

The Board decided that the following disclosures should be required in the year of adoption:

- a. Information required in paragraphs 250-10-50-1 through 50-3 on a disaggregated basis consistent with that which will be used for recurring disclosures
- b. If retrospective application is impracticable, the portion of the liability for future policy benefits not subject to retrospective application
- c. Qualitative and quantitative information about transition adjustments related to (a) a net premium ratio exceeding 100 percent or (b) the establishment of an additional liability for a nontraditional contract.

(Vote: unanimous)

Stakeholder Feedback Update

The staff updated the Board on feedback received on the Board's tentative decision on the accounting for deferred acquisition costs.

Next Steps

The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot.

General Announcements:

None.