

MINUTES



MEMORANDUM

**To:** Board Members  
**From:** Insurance Team (Klopfenstein x399)  
**Subject:** Minutes of August 2, 2017 Board Meeting on Insurance—Targeted Improvements to the Accounting for Long-Duration Contracts  
**Date:** August 8, 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 156: Assumption Update Methods

FASB Memo 157: Liability for Future Policy Benefits

**Length of Discussion:** 9:00 AM to 10:20 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: Cospers, 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 began redeliberating the amendments in proposed Accounting Standards Update, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The meeting topic was the liability for future policy benefits for nonparticipating traditional and limited-payment insurance contracts.

*Assumptions Used in Measuring the Liability*

The Board voted to affirm that assumptions used to measure the liability for future policy benefits for nonparticipating traditional and limited-payment contracts should be updated.

(Vote: 7-0)

The Board voted to affirm that the effect of assumption changes should be calculated and recorded on a catch-up basis in net income.

(Vote: 6-1)

The Board voted to affirm and clarify that cash flow assumptions should be reviewed (and, if there is a change, updated) on an annual basis at the same time every year, or more frequently in interim reporting periods if evidence suggests that earlier cash flow assumptions should be revised.

(Vote: 7-0)

The Board voted to affirm and clarify that the provision for adverse deviation and premium deficiency tests should be eliminated for nonparticipating traditional and limited-payment contracts, that the net premium ratio should be capped at 100 percent, and that loss recognition testing should be retained for universal life-type contracts.

(Vote: 7-0)

The Board voted to clarify that contracts from different issue years should not be grouped but that contracts issued within a single issue year may be grouped when

determining the level of aggregation for measuring the liability for future policy benefits.

(Vote: 7-0)

The Board voted to permit, but not require, the expense assumption to be updated in a manner consistent with the update methodology used for all other cash flow assumptions. An insurance entity may elect to not update the expense assumption.

(Vote: 7-0)

*Discount Rate Used in Measuring the Liability*

The Board voted to affirm that future cash flows should be discounted using a current upper-medium grade (low credit risk) fixed-income instrument yield.

(Vote: 7-0)

The Board voted to affirm that the discount rate assumption should be updated at each reporting date.

(Vote: 7-0)

The Board voted to affirm that the effect of updating the discount rate assumption should be recognized immediately in other comprehensive income.

(Vote: 6-1)

*Transition*

The Board voted that an insurance entity would apply the proposed amendments to all contracts in force on the basis of their existing carrying amounts 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 as of contract inception. The option would be elected at the issue-year contract aggregation level and applied to all contract groups for that issue year and all subsequent issue years.

(Vote: 5-2)

*Next Steps*

The following topics will be discussed at future Board meetings:

1. Participating insurance contracts (that is, assumptions used to measure the liability)
2. Measurement of market risk benefits
3. Amortization of deferred acquisition costs
4. Presentation and disclosures.

**General Announcements:** None.