

Insurance Project — FASB Tentatively Decides on Presentation and Disclosure Requirements for Long-Duration Insurance Contracts

February 26, 2016 — At its meeting this week, the FASB tentatively decided to require insurers to separately present (1) the carrying amount of the liability for market risk benefits in the statement of financial position and (2) changes in the fair value of that liability (excluding changes in an entity's own credit risk) in the statement of operations. In a series of unanimous votes, the FASB also tentatively approved proposed disclosure requirements related to (1) liability for future policy benefits, (2) liability for policyholders' account balances, (3) market risk benefits and separate account liabilities, and (4) deferred acquisition costs. The disclosure requirements detailed in the meeting [handout](#) and tentatively approved by the Board are reproduced in the [appendix](#) below.

Some Board members questioned whether insurers should be (1) required to provide the proposed disclosures in both annual and interim periods, as currently proposed, or (2) permitted to exercise judgment in determining the extent of their interim disclosures. In the ensuing discussion, some Board members expressed their belief that the FASB is likely to issue a proposed ASU to solicit comments on the tentative decisions related to the insurance project and that this question should be posed in the proposed ASU.

Next Steps

The FASB will discuss transition alternatives at a future meeting.

Appendix — Proposed Disclosure Requirements

The proposed disclosure requirements outlined below were tentatively approved by the FASB at its February 24, 2016, meeting.

Liability for Future Policy Benefits

The Board tentatively decided to require insurers to provide the following disclosures (reproduced from the meeting handout) related to liability for future policy benefits on an annual and interim basis:

- a. Disaggregated tabular rollforward of the opening balance to the closing balance, with separate presentation of expected future net premiums and expected future benefits
- b. For each disaggregated rollforward presented:
 - i. The undiscounted ending balance for both the expected future net premiums and expected future benefits
 - ii. The amount of gross premiums collected
 - iii. The amount of any related reinsurance recoverable
 - iv. Qualitative and quantitative information (which includes the range, weighted average, and actual experience) about the significant estimates, inputs, judgments, and assumptions used in measurement, the changes in those significant estimates, inputs, judgments, and assumptions, and the effect of the changes in those significant estimates, inputs, judgments, and assumptions on the measurement of the liability.
- c. A reconciliation of the disaggregated rollforwards to the aggregate ending carrying amount of the liability, total interest recorded for the period, and total gross premiums collected during the period
- d. Qualitative and quantitative information about adverse development resulting in the following:
 - i. Net premium ratio exceeding 100 percent
 - ii. The establishment of an additional liability for a nontraditional contract.
- e. For contracts for which no liability is recorded because no future losses are expected, qualitative and quantitative information (which includes the range, weighted average, and actual experience) about the significant estimates, inputs, assumptions, and judgments used to determine that no liability is required.

Liability for Policyholders' Account Balances

The Board tentatively decided to require insurers to provide the following disclosures (reproduced from the meeting handout) related to policyholders' account balances on an annual and interim basis:

- a. Disaggregated tabular rollforward of the opening balance to the closing balance
- b. For each disaggregated rollforward presented:
 - i. The weighted-average earned rate and the weighted-average crediting rate
 - ii. Net amount at risk
 - iii. Cash surrender value.
- c. A reconciliation of the disaggregated rollforwards to the aggregate ending carrying amount of the liability
- d. Tabular presentation of policyholders' account balances by range of guaranteed minimum crediting rates and the related range of the difference between rates being credited to policyholders and the respective guaranteed minimums
- e. Qualitative and quantitative information about objectives, policies, and processes for managing risks.

Market Risk Benefits and Separate Account Liabilities

The Board tentatively decided that insurers will provide the following disclosures (reproduced from the meeting handout) related to market risk benefits and separate account liabilities on an annual and interim basis:

Market Risk Benefits

- a. Disaggregated tabular rollforward of the opening balance to the closing balance, disaggregated by type of market risk benefit
- b. For each disaggregated rollforward presented:
 - i. The related net amount at risk
 - ii. Fees collected
 - iii. Qualitative and quantitative information [which includes the range, weighted average, and actual experience] about the significant estimates, inputs, assumptions, and judgments used in measurement [as well as] changes in those significant estimates, inputs, judgments, and assumptions [and the effects of the changes on the measurement].
- c. A reconciliation of the disaggregated rollforwards to the aggregate ending carrying amount, disaggregated between positions that are in the money and those that are out of the money
- d. Qualitative and quantitative information about objectives, policies, and processes for managing risks arising from market risk benefits.

Separate Account Liabilities

- a. Disaggregated tabular rollforward of the opening balance to the closing balance
- b. For each rollforward presented, the related cash surrender values
- c. A reconciliation of the rollforwards to the aggregate ending carrying amount of the liability.

During the Board meeting, it was noted that the proposed disclosure requirements related to market risk benefits and separate account liabilities are intended to tailor, and not duplicate, the fair value disclosure requirements under ASC 820. The Board's staff will prepare an illustrative example and clarify the interplay between these proposed additions to ASC 944 and the existing ASC 820 disclosure requirements.

Deferred Acquisition Costs

At the meeting, the Board also tentatively decided that "disaggregated tabular rollforwards of the opening to the closing balance of deferred acquisition costs should be required, together with the inputs and assumptions used to determine amortization,"¹ for both interim and annual financial statements.

¹ Quoted text is from the meeting handout.

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