

## **Insurance Project— Targeted Improvements to the Accounting for Long-Duration Contracts Tentative Board Decisions to Date as of February 18, 2015**

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*The Tentative Board Decisions to Date is provided for the information and convenience of constituents who want to follow the Board’s deliberations. All of the conclusions reported may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Accounting Standards Update.*

In light of the feedback received on the 2013 proposed FASB Accounting Standards Update, *Insurance Contracts (Topic 834)*, the Board decided to limit the scope to insurance entities as described in existing generally accepted accounting principles (GAAP). The Board also decided that the project should focus on making targeted improvements to existing GAAP. For long-duration contracts, the Board concluded that decisions reached by the IASB in its 2013 IASB Exposure Draft, *Insurance Contracts*, should be considered when contemplating improvements to existing GAAP.

### *Periodic Assumption Update*

The Board decided to require that insurance entities update all assumptions used in calculating the liability for future policy benefits for traditional long-duration contracts, limited payment contracts, and participating life insurance contracts annually, during the fourth quarter, and include the effects of changed assumptions in the determination of net income. The Board decided that a provision for adverse deviation should not be included in the calculation of the liability. The Board also decided to require that entities disclose information about the liability for future policy benefits and the assumptions used. These disclosures include:

1. Disaggregated balance of the liability for future policy benefits and the weighted-average discount rates used to measure the liability for future policy benefits in time bands and any additional information about amounts and rates within the time bands provided that significantly affect the discount rates
2. Disaggregated quantitative and qualitative information about the methods and inputs used to develop the measurement of the liability for future policy benefits, including disclosure of assumptions used (such as discount rate, mortality, morbidity, termination [lapse], and expense assumptions)
3. Disaggregated reconciliations from the opening to the closing balance of the liability for future policy benefits, with separate disclosure of changes in the liability for future policy benefits due to new contracts, benefit payments, changes in assumptions, and derecognition of contracts.

The Board decided that the guidance proposed for the periodic assumption update for traditional long-duration contracts, limited payment contracts, and participating life

insurance contracts would apply for updating assumptions used to calculate the additional liability for universal life-type contracts.

#### *Discount Rate*

The Board decided that long-duration insurance contracts that are discounted using an expected investment yield under existing GAAP should be discounted using a rate based on a portfolio of high-quality, fixed-income investments.

#### *Premium Deficiency and Loss Recognition*

As a result of its decision to require that insurance entities annually update all assumptions used in the calculation of the liability for future policy benefits, the Board decided that a premium deficiency test would not be required.

#### *Amortization of Deferred Acquisition Costs*

Deferred acquisition costs relating to certain investment contracts would continue to be amortized using an effective interest method.

Deferred acquisition costs for all other types of long-duration contracts would be amortized over the expected life of a book of contracts in proportion to the amount of insurance in force. When the amount of insurance in force is variable and cannot be reliably predicted or is otherwise not readily determinable, however, a straight-line method in proportion to the number of contracts outstanding would be used.

#### *Next Steps*

The Board will continue to deliberate other targeted improvements to the accounting for long-duration contracts. Please refer to the current technical plan for information about the project timeline.