

## Heads Up

### In This Issue:

- Background
- Tentative Decisions
- Next Steps

The FASB's tentative decisions represent a significant change in the direction of the FASB's insurance contracts project and would result in a U.S. insurance accounting model that significantly diverges from the insurance accounting model proposed by the IASB.

### Less Is More

## FASB Tentatively Decides to Narrow Scope of Insurance Contracts Project

by Rick Sojkowski, Mark Bolton, and Erica Czajkowski, Deloitte & Touche LLP

At its meeting on February 19, 2014, the FASB tentatively decided to:

- Generally limit the scope of insurance accounting to insurance entities.
- Retain the existing recognition and measurement model for short-duration contracts under U.S. GAAP and make targeted improvements to enhance the disclosures for such contracts.
- Make targeted improvements to the recognition, measurement, and disclosure model for long-duration contracts.

These tentative decisions represent a significant change in the direction of the FASB's insurance contracts project and would result in a U.S. insurance accounting model that significantly diverges from the insurance accounting model proposed by the IASB.

This *Heads Up* discusses the FASB's recent decisions and anticipated next steps related to its insurance contracts project.

### Background

In 2007, the IASB initiated the second phase of its project to develop a comprehensive insurance accounting model under IFRSs. A comprehensive model already exists under U.S. GAAP; however, in 2008, the FASB decided to participate in the IASB's project because it identified aspects of insurance accounting under U.S. GAAP that could be improved and it believed that a single global insurance accounting model would benefit financial statement users. Since then, the boards have jointly deliberated the issues related to insurance accounting and have sought feedback from their constituents. Although they agreed on certain elements of the proposed models, they were unable to bridge their philosophical differences in other areas, and in June 2013, the IASB issued [ED/2013/7](#) while the FASB separately issued a [proposed ASU](#) on insurance contracts.<sup>1</sup> Feedback on the proposals was mixed, and the boards believed they were unlikely to agree on a single converged accounting model for insurance contracts. In particular, many U.S. constituents did not perceive that the existing U.S. GAAP accounting models were "broken," and they questioned the benefit of making comprehensive changes to those models if convergence ultimately would not be achieved. In light of such feedback and concerns about potential implementation costs, the FASB decided at its February meeting to revisit the scope of the project.

<sup>1</sup> IASB Exposure Draft ED/2013/7, *Insurance Contracts*, was the IASB's second formal exposure document in the insurance contracts project (the first was issued in 2010), and it sought feedback on only certain aspects of the IASB's proposed model. FASB Proposed Accounting Standards Update, *Insurance Contracts*, was comprehensive.

## Tentative Decisions

### Scope

Under the FASB's and IASB's proposals, any entity that issued an insurance contract, as defined in the proposals, or that purchased a reinsurance contract would have applied the proposed insurance accounting model. On the basis of feedback received on the proposed ASU, a majority of the FASB agreed at the February meeting that instead of establishing a contracts-based model that would require the Board to create numerous scope exceptions for certain contracts issued by nontraditional insurers, the FASB could reduce the proposal's complexity by retaining the "activity-based" scope of existing U.S. GAAP (i.e., limiting the scope of insurance accounting to insurance entities).

**Editor's Note:** FASB members acknowledged that having industry-specific accounting guidance is not ideal; however, they did not perceive that providing numerous scope exceptions to a general contract-based principle would garner a better financial reporting outcome. Several members also indicated that the Board could later revisit whether certain contracts written by noninsurers should be subject to the insurance accounting model.

The FASB also tentatively decided to focus its future efforts on making targeted improvements to the existing U.S. GAAP insurance accounting model instead of redeliberating the proposed ASU's comprehensive changes.

### Accounting Models

The FASB also tentatively decided to focus its future efforts on making targeted improvements to the existing U.S. GAAP insurance accounting model instead of redeliberating the proposed ASU's comprehensive changes. In making this decision, the Board considered constituent feedback, potential implementation costs, and the likelihood that the FASB and IASB would be unable to agree on a converged accounting model.

For short-duration contracts, the FASB tentatively decided that its targeted improvements should focus only on enhancing the disclosures about such contracts.

**Editor's Note:** A FASB member indicated that disclosure enhancements might include information about loss reserves (similar to the information entities currently provide under NAIC<sup>2</sup> Schedule P for statutory reporting) and about claim frequency and severity.

Also, despite the FASB's decision to focus only on disclosures about such contracts, it is unclear whether aspects of recognition and measurement for short-duration contracts could ultimately be affected by the Board's pursuit of other targeted improvements. For example, one Board member suggested the possibility of revisiting issues related to risk transfer for reinsurance contracts that had been raised in a separate project added to the FASB's agenda in 2005 (but ultimately deferred). Addressing these issues could affect how an insurance contract is defined and indirectly affect recognition of certain short-duration contracts. Moreover, it is conceivable that the Board's reconsideration of long-duration insurance contract accounting could yield decisions that also could potentially affect short-duration contract accounting (e.g., definition of portfolio, composition of acquisition costs).

For long-duration contracts, the FASB's targeted improvements may take into account all aspects of the long-duration accounting model, including recognition, measurement, and disclosure. Although achieving convergence with the IASB's proposed accounting model for such contracts (i.e., the building block approach) will not be the FASB's primary objective going forward, during its deliberations the FASB still will consider the IASB's proposed accounting model. Several FASB members acknowledged that its targeted improvement efforts could possibly result in a long-duration accounting model that is similar to the building block approach.

<sup>2</sup> National Association of Insurance Commissioners.

**Editor’s Note:** Some FASB members expressed the belief that the Board’s targeted improvements to the long-duration insurance contract accounting model should begin with a comprehensive reconsideration of the existing accounting models under U.S. GAAP. Although the Board did not enumerate which targeted improvements it would pursue, some members thought that the FASB should strive to develop a single accounting model for long-duration contracts; others did not necessarily agree that a single accounting model for such contracts should be the ultimate goal. The FASB’s 2010 [discussion paper](#)<sup>3</sup> outlined a number of suggested enhancements to existing U.S. GAAP and may offer some clues about improvements the FASB may pursue. These include (1) unlocking and updating assumptions used in the calculation of long-duration contract policyholder benefits and (2) using current discount rates (that reflect the characteristics of the liabilities) to measure contract liabilities instead of rates based on estimated investment yields.

## Next Steps

The FASB directed its staff to (1) conduct additional research on potential targeted improvements and (2) analyze the existing long-duration accounting models under U.S. GAAP to identify differences between the models and practice issues raised by financial statement preparers and users.

<sup>3</sup> FASB Discussion Paper, *Preliminary Views on Insurance Contracts*.

## Subscriptions

If you wish to receive *Heads Up* and other accounting publications issued by Deloitte's Accounting Standards and Communications Group, please [register](http://www.deloitte.com/us/subscriptions) at [www.deloitte.com/us/subscriptions](http://www.deloitte.com/us/subscriptions).

## *Dbriefs* for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy and tax.
- Financial reporting for taxes.
- Transactions and business events.
- Driving enterprise value.
- Governance and risk.
- Financial reporting.
- Technology.

*Dbriefs* also provides a convenient and flexible way to earn CPE credit — right at your desk. [Subscribe](#) to *Dbriefs* to receive notifications about future webcasts at [www.deloitte.com/us/dbriefs](http://www.deloitte.com/us/dbriefs).

Registration is available for this upcoming *Dbriefs* webcast. Use the link below to register:

- [EITF Roundup: Highlights From the March Meeting](#) (March 18, 2 p.m. (EDT)).

## Technical Library and US GAAP Plus

Deloitte makes available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool, the library includes material from the FASB, the EITF, the AICPA, the PCAOB, the IASB, and the SEC, in addition to Deloitte's own accounting and SEC manuals and other interpretive accounting and SEC guidance.

Updated every business day, Technical Library has an intuitive design and navigation system that, together with its powerful search features, enable users to quickly locate information anytime, from any computer. Technical Library subscribers also receive *Technically Speaking*, the weekly publication that highlights recent additions to the library. For more information, including subscription details and an online demonstration, visit [www.deloitte.com/us/techlibrary](http://www.deloitte.com/us/techlibrary).

In addition, be sure to visit [US GAAP Plus](#), our new free Web site that features accounting news, information, and publications with a U.S. GAAP focus. It contains articles on FASB activities and updates to the *FASB Accounting Standards Codification*<sup>™</sup> as well as developments of other U.S. and international standard setters and regulators, such as the PCAOB, the AICPA, the SEC, the IASB, and the IFRS Interpretations Committee. Check it out today!

*Heads Up* is prepared by the National Office Accounting Standards and Communications Group of Deloitte as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.