# Insurance Entities Expert Panel

## Highlights of the November 1 & 17, 2016, Meetings


During 2016, the Expert Panel and members of the SEC staff had several discussions about the new disclosures of incurred and paid claim information in the claims development tables required in FASB ASU 2015-09: Disclosures about Short-Duration Contracts, (FASB ASC 944-40-50-4B through 50-4D), related to the presentation of acquisitions, dispositions and the effects of foreign currency. The Expert Panel presented several presentation alternatives and asked the SEC Staff if any of the proposed presentation alternatives, in their view, would be deemed inconsistent with the disclosure objectives and requirements outlined in FASB ASU 2015-09 ("the ASU"), which include:

- Ensuring the claims development information relates to the liability that exists at the current balance sheet date, not liabilities that existed at earlier balance sheet dates,
- Presenting information by accident year, which is defined as the year in which a covered event (as defined by the terms of the contract) occurs,
- Presenting incurred and paid claims activity separately, and
- Disaggregating information in a manner that allows users to understand the amount, timing and uncertainty of cash flows and does not distort trends or obscure useful information.

During calls on November 1 & 17, 2016, the SEC staff shared the following observations:

1. Acquisitions – The SEC staff noted that a retrospective approach would best achieve the disclosure objectives of the ASU by presenting all relevant historical information for all periods presented. In this approach an acquirer would include the acquiree's historical incurred and paid accident year claim information in its claims development tables and related disclosures. In applying a retrospective approach, it would be appropriate to either present the incurred and paid claim information of the acquiree separately, or combined with the claims development information of the acquirer using the disaggregation principle as required by the ASU. In contrast, the SEC staff noted that a prospective presentation of an acquired business that depicts the year of acquisition as the accident year for all liabilities acquired in the acquisition would not be consistent with the ASU's definition of accident year. The SEC staff also noted that a prospective presentation that commingles the liabilities acquired in the acquisition with the registrant's existing business, even if they depict the acquired liabilities by accident year, would not be consistent with the disaggregation and meaningful trend analysis requirements of the ASU.

The SEC staff did note that a prospective approach where the incurred and paid accident year claim information of the acquiree is presented separately from the acquirer as of the acquisition date and in subsequent periods in a separate table or tables as appropriate could be deemed to meet the disclosure objectives of the ASU. Under this method, the acquired liabilities as of the acquisition date would be presented in the fiscal year that includes the acquisition date by individual accident year in the incurred section of a table, with subsequent activity presented separately in the incurred and paid sections of that table. Acquired liabilities and subsequent development related to them should be presented separately from the acquirer's information.

2. Dispositions - The SEC staff noted that a retrospective approach would be consistent with the disclosure objectives of the ASU. In this approach, an entity would exclude incurred and paid claims information for the disposed business from the claims development tables for all years presented (i.e. exclude the disposed business from prior, and current periods' rows and columns). In contrast, the SEC staff noted that a prospective presentation that continues to present the historical claim information relating to the disposed business in the same table as the existing business would not be consistent with the ASU's requirement to present claims development data for the liability at the balance sheet date. In addition, the SEC staff noted that a presentation that shows the reduction in the unpaid claim liabilities relating to dispositions as a net reduction to amounts in the incurred activity or alternatively a net increase in the amounts in the paid claims activity in the year of disposition column would be inconsistent with the requirements of the ASU.

3. Foreign Exchange – The SEC staff noted that an approach which uses the current year-end balance sheet rate for all periods provided (i.e., at each reporting period recast all data in the table using the current period-end rate) would be consistent with the disclosure objectives of the ASU, since it would eliminate the effects of changes in foreign currency translation rates from the incurred and paid claims information in the claims development tables. The SEC staff noted that another approach that includes separate claims development tables for each functional currency would also be consistent with the disclosure objectives of the ASU. In contrast, the SEC staff noted that a presentation that did not use the same exchange rate for all of the data in the table, that is for all accident years and for both incurred and paid, would be inconsistent with the requirements of the ASU, particularly FASB ASC 944-40-50-4H and the ASU's meaningful trend analysis objective.

The SEC staff also noted that if a Registrant believes that a presentation other than the ones identified as acceptable by the SEC Staff is consistent with the disclosure objectives of the ASU, the SEC staff would be open to discuss specific facts and circumstances with the Registrant.

The SEC staff also stated that as long as an insurance entity provides the claim development tables as required by FASB ASU 2015-09, that entity is not obligated to provide the ten-year table if otherwise required by SEC Guide 6: Disclosures concerning unpaid claims and claim adjustment expenses of property-casualty insurance underwriters.

This position was included in the November 9, 2016 update to the SEC Division of Corporation Finance: Financial Reporting Manual, section 11300 New Disclosures about Short-Duration Contracts for Insurance Entities:

> 11310.1
> Question: A registrant adopts the ASU for the fiscal year ended December 31, 2016. The new guidance requires the presentation in the notes to the financial statements of disaggregated claims development tables, at a minimum for each reportable segment, depicting, in part, re-estimates of claims by accident year for up to ten years. Securities Act Industry Guide 6 and Exchange Act Industry Guide 4 (collectively, "Industry Guide 6") identify a consolidated ten-year loss reserve development table to be provided by Property and Casualty insurers in either the Business or MD&A section. Must the registrant continue to present the Industry Guide 6 table in its filings?
>
> Answer: No. A registrant must provide the claims development tables required by the ASU. It does not have to separately provide the ten-year loss reserve development table identified in Industry Guide 6, but may opt to do so.