December 9, 2019

Working Draft:

Allowance for Credit Losses Implementation Issue

(with a focus on Insurance Entities)

Issue #34: Considerations Related to ASC Topic 326: Financial Instruments - Credit Losses, for Reinsurance Recoverables

Wording to be Included in the Audit and Accounting Guides: Allowance for Credit Losses, Life and Health Insurance Entities, and Property and Liability Insurance Entities

Background – Reporting Reinsurance Assets and Liabilities

1. As stated in FASB ASC 944-20-40-4, "Reinsurance contracts in which a ceding entity is not relieved of the legal liability to its policyholder shall not result in the removal of the related assets and liabilities from the ceding entity's financial statements." For those agreements, the ceding entity should report as assets estimated reinsurance recoverables and any prepaid reinsurance premiums arising from those agreements.

2. The FASB ASC Master Glossary defines reinsurance recoverables as "All amounts recoverable from reinsurers for paid and unpaid claims and claim settlement expenses, including estimated amounts receivable for unsettled claims, claims incurred but not reported, or policy benefits."

3. As stated in FASB ASC 944-20-15-33, "Servicing carriers for involuntary risk pools are also included in the scope of the Reinsurance Contracts Subsections of this Subtopic because the servicing carrier business is indistinguishable effectively from other types of reinsurance for accounting purposes."

4. As stated in FASB ASC 944-20-25-4b, "The ceding enterprise shall recognize an asset, and the assuming enterprise should recognize a liability to the extent that any cash (or other consideration) would be payable from the assuming enterprise to the ceding enterprise based on experience to date under the contract." As stated in FASB ASC 944-310-45-7:

   > Amounts receivable and payable between the ceding entity and an individual reinsurer shall be offset only if a legal right of setoff exists, as defined in Subtopic 210-20, even if the ceding entity and reinsurer are affiliated entities. However, if the ceding entity and reinsurer are affiliated entities, the amounts shall be eliminated in consolidation when the affiliated entities are included in consolidated financial statements.

   See paragraph 9 for discussion on reinsurance recoverables between affiliated insurance entities.

5. As stated in FASB ASC 944-40-25-34:

   Reinsurance recoverables shall be recognized in a manner consistent with the related liabilities (including estimates for incurred but not reported claims and future policy benefits) relating to the underlying reinsured contracts. Assumptions used in estimating reinsurance recoverables shall be consistent with those used in estimating the related liabilities.

Scope

6. As noted in FASB ASC 326-20-15-2d, reinsurance recoverables that result from insurance transactions within the scope of Topic 944 on insurance are in the scope of FASB ASC 326[1].

7. FASB ASC 326-20-55-81 states:

   Reinsurance recoverables may comprise a variety of risks that affect collectibility including:

   a. Credit risk of the reinsurer/assuming company
   b. Contractual coverage disputes between the reinsurer/assuming company and the insurer/ceding company including contract administration issues
   c. Other noncontractual, noncoverage issues including reinsurance billing and allocation issues.

8. FASB ASC 326-20-55-82 clarifies that ASC 326-20 only applies to measurement of expected losses related to the credit risk of the reinsurer/assuming company. As stated in FASB ASC 944-310-35-4, "An entity shall measure contingent losses relating to disputed amounts in accordance with Subtopic 450-20 on loss contingencies."

9. FASB ASC 326-20-15-3f, explains that the guidance in ASC 326-20 does not apply to loans and receivables between entities under common control. In accordance with FASB ASC 326-20-15-3f, FinREC believes that the guidance in ASC 326-20 would not apply to reinsurance recoverables between entities under common control, .

Types of Reinsurance

10. Generally, reinsurance is offered through the following entities in the United States:

    a. Professional reinsurers that engage almost exclusively in reinsurance, although they are usually permitted by their charters and licenses to operate as primary insurance companies.

    b. Reinsurance departments of primary insurance companies that function as units of primary insurers and engage in reinsurance.

    c. Groups or syndicates of insurers, referred to as reinsurance pools or associations, that may be organized to provide their members with reinsurance protection and management for certain specialized, high risk coverage or with general access to the reinsurance market for traditional lines of business.

    d. Reinsurance intermediaries, including brokers, agents, managing general agents, and similar entities, facilitate reinsurance by bringing together ceding companies and reinsurers. Reinsurance intermediaries may

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[1] A reinsurance contract that meets the definition of a Market Risk Benefit (MRB) in FASB ASC 944-40-25-25C of FASB ASU 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, is required to be measured at fair value per FASB ASC 944-40-30-19C.

FASB ASC 326-20-15-3a explains that financial assets measured at fair value through net income are outside the scope of FASB ASC 326-20. Therefore, reinsurance contracts that are accounted for as an MRB are outside the scope of FASB ASC 326-20

Per FASB ASU 2019-09, *Financial Services – Insurance (Topic 944): Effective Date*, for public business entities that meet the definition of an SEC filers, excluding entities eligible to be SRCs as defined by the SEC, the amendments in Update 2018-12 would be effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The one-time determination of whether an entity is an SRC should be based on an entity's most recent determination as of November 15, 2019 (the issuance date of this Update), in accordance with SEC regulations. For example, because SRC status is determined on the last business day of the most recent second quarter, the most recent determination date is June 28, 2019, for calendar-year-end companies. Early application of the amendments in Update 2018-12 is permitted. For all other entities, the amendments in Update 2018-12 would be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early application of the amendments in Update 2018-12 would be permitted.

underwrite, design, and negotiate the terms of reinsurance. They usually place reinsurance, accumulate and report transactions, distribute premiums, and facilitate the exchange of funds between the ceding company and the reinsurers.

e. Programs operated by States or other governmental entities as a condition for writing certain lines of business. Examples include the Florida Hurricane Catastrophe Fund, Michigan Catastrophic Claims Association, and the Terrorism Risk Insurance Program of the Department of Treasury. These programs may be constructed as indemnification programs and do not operate as traditional reinsurance programs. These programs and their accounting are discussed more fully under Government Established Indemnification Programs in paragraphs 23 through 27.

f. Groups or syndicates of professional investors, such as sidecars, cat bonds, or transformers, that are designed to allow their investors to assume insurance risk and earn a profit on a group of insurance policies ceded by a specific insurer or retroceded by a specific reinsurer.

Determination of Expected Credit Losses - Reinsurance Recoverables

Initial Measurement

11. FASB ASC 326-20-30-1 states,

> The allowance for credit losses is a valuation account that is deducted from, or added to, the amortized cost basis of the financial asset(s) to present the net amount expected to be collected on the financial asset. Expected recoveries of amounts previously written off and expected to be written off shall be included in the valuation account and shall not exceed the aggregate of amounts previously written off and expected to be written off by an entity. At the reporting date, an entity shall record an allowance for credit losses on financial assets within the scope of this Subtopic. An entity shall report in net income (as a credit loss expense) the amount necessary to adjust the allowance for credit losses for management's current estimate of expected credit losses on financial asset(s).

12. In accordance with FASB ASC 326-20, an insurance entity that has a reinsurance recoverable asset should assess the recoverable for collectability of cash or other resources from the reinsurer (i.e., the assuming entity).

13. In accordance with FASB ASC 326-20-30-1, the allowance for credit losses reduces the reported carrying amount of the reinsurance recoverable to the amount that is expected to be collected from the assuming entities.

Similar Risk Characteristics (Level of Aggregation)

14. FASB ASC 326-20-30-2 states:

> An entity shall measure expected credit losses of financial assets on a collective (pool) basis when similar risk characteristic(s) exist (as described in paragraph 326-20-55-5). If an entity determines that a financial asset does not share risk characteristics with its other financial assets, the entity shall evaluate the financial asset for expected credit losses on an individual basis. If a financial asset is evaluated on an individual basis, an entity also should not include it in a collective evaluation. That is, financial assets should not be included in both collective assessments and individual assessments.

15. FASB ASC 326-20-55-83 states:

> In situations in which similar risk characteristics are not present in the reinsurance recoverables, the ceding insurer should measure expected credit losses on an individual basis. Similar risk characteristics may not exist because any one or a combination of the following factors exists, including, but not limited to:
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> a. Customized reinsurance agreements associated with individual risk geographies
> b. Different size and financial conditions of reinsurers that may be either domestic or international
> c. Different attachment points among reinsurance agreements
> d. Different collateral terms of the reinsurance agreements (such as collateral trusts or letters of credit)
> e. The existence of state-sponsored reinsurance programs.

16. FASB ASC 326-20-55-84 states:

> However, similar risk characteristics may exist for certain reinsurance recoverables because any one or combination of the following exists:
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> a. Reinsurance agreements that have standardized terms
> b. Reinsurance agreements that involve similar insured risks and underwriting practices
> c. Reinsurance counterparties that have similar financial characteristics and face similar economic conditions.

17. FASB ASC 326-20-55-85 also explains that "judgment should be applied by ceding insurers in determining if and when similar risks exist within their reinsurance receivables."

18. When assessing the factors in paragraphs 55-83 and 55-84 of FASB ASC 326-20 to determine if the expected credit loss on a reinsurance recoverable should be measured on an individual basis or by grouping reinsurance recoverables on a collective pool basis, FinREC believes that the insurance entity should consider information about the reinsurer when determining whether similar risk characteristics are present that include, but are not limited, to the following:
    a. Credit ratings – External credit ratings, for example, A.M. Best Rating Services provides credit ratings focused on a reinsurer's financial strength and credit worthiness or an established internal credit rating review process. Consistent with FASB ASC 326-20-55-84c, reinsurance recoverables from reinsurers with different credit ratings would generally not be considered to have similar counterparty credit risk characteristics.

    b. Geographic concentration of business written by the reinsurer – Consistent with paragraphs 55-83a and 55-83b of FASB ASC 326-20, whether the reinsurer is involved in reinsurance agreements globally or contained to a specific geographic region, should be evaluated in determining if similar risk characteristics exist with other reinsurers.

    c. Size of reinsurer – Also consistent with FASB ASC 326-20-55-83b, the size of the reinsurer, which may be indicative of its financial strength, should be evaluated in determining if similar risk characteristics exist with other reinsurers.

    d. Type of agreements written by the reinsurer – Consistent with FASB ASC 326-20-55-84b, the types of reinsurance agreements written by the reinsurer should be evaluated as part of the determination of whether similar risk characteristics exist with other reinsurers.

Assessment of Collectability of Cash Flows

19. Paragraphs 7-9 of FASB ASC 326-20-30 provide guidance on the development of reasonable and supportable forecasts, and state:

> When developing an estimate of expected credit losses on financial asset(s), an entity shall consider available information relevant to assessing the collectability of cash flows. This information may include internal information, external information, or a combination of both relating to past events, current conditions, and reasonable and supportable forecasts. An entity shall consider relevant qualitative and quantitative factors that relate to the environment in which the entity operates and are specific to the borrower(s). When financial assets are evaluated on a collective or individual basis, an entity is not required to search all possible information that is not reasonably available without undue cost and effort. Furthermore, an entity is not required to develop a hypothetical pool of financial assets. An entity may find that using its internal information is sufficient in determining collectability.
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> Historical credit loss experience of financial assets with similar risk characteristics generally provides a basis for an entity's assessment of expected credit losses. Historical loss information can be internal or external historical loss information (or a combination of both). An entity shall consider adjustments to historical loss information for differences in current asset specific risk characteristics, such as differences in underwriting standards, portfolio mix, or asset term within a pool at the reporting date or when an entity's historical loss information is not reflective of the contractual term of the financial asset or group of financial assets.
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> An entity shall not rely solely on past events to estimate expected credit losses. When an entity uses historical loss information, it shall consider the need to adjust historical information to reflect the extent to which management

expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The adjustments to historical loss information may be qualitative in nature and should reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses on the financial asset or in the group of financial assets). Some entities may be able to develop reasonable and supportable forecasts over the contractual term of the financial asset or a group of financial assets. However, an entity is not required to develop forecasts over the contractual term of the financial asset or group of financial assets. Rather, for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts of expected credit losses, an entity shall revert to historical loss information determined in accordance with paragraph 326-20-30-8 that is reflective of the contractual term of the financial asset or group of financial assets. An entity shall not adjust historical loss information for existing economic conditions or expectations of future economic conditions for periods that are beyond the reasonable and supportable period. An entity may revert to historical loss information at the input level or based on the entire estimate. An entity may revert to historical loss information immediately, on a straight-line basis, or using another rational and systematic basis.

20. As required by FASB ASC 326-20-30-7, an insurance entity should consider available information about past events, current conditions and, reasonable and supportable forecasts to assess the collectability of cash flows to develop an estimate of the allowance for credit losses of reinsurance recoverables.

21. When assessing the collectability of reinsurance recoverables, FinREC believes that the insurance entity should consider information that includes, but is not limited, to the following:
    a. Rating from A.M. Best and other rating firms of the assuming company – As discussed in paragraph 18a, credit and claims paying ratings from reputable ratings agencies focused on the insurance industry should be considered in assessing the collectability of reinsurance recoverables.

    b. Information obtained through an established internal credit rating review process.

    c. The term of exposure that is associated with the expected payment pattern of the reinsured claims. Certain reinsurance arrangements have no stated termination date and are in force until all claims from the reinsured policies have been paid or the agreement is commuted or terminated by mutual agreement between the ceding insurance entity and reinsurer.

       As discussed in FASB ASC 326-20-30-9, insurers "shall consider the need to adjust historical information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated." These adjustments may be qualitative in nature and should reflect relevant data that could affect the reinsurer's ability to pay the recoverable. These adjustments should be made, to the extent deemed necessary, for periods for which the entity is able to make or obtain reasonable and supportable forecasts of expected credit losses; for subsequent periods an entity should revert to historical loss information reflective of the contractual term.

    d. The amount of coverage available from state guaranty funds, if any, on certain purchased annuities reported within reinsurance recoverables that fund structured settlements.

       In the case of certain claims, e.g., income replacement payments made as part of a workers' compensation claim, insurance entities enter into an agreement to pay the claimant in installments over an established period of time, referred to as a structured settlement. Often these settlements are funded by the purchase of an annuity contract by the insurance entity. As discussed in FASB ASC 944-20-55-57, a structured settlement transaction that does not legally replace one insurer by another and thereby extinguish the primary insurer's liability to the policyholder is accounted for as reinsurance if the annuity funding the settlement meets the conditions for reinsurance accounting.

       While there is generally no guaranty fund coverage for reinsurance contracts, annuities are subject to guaranty fund coverage (varies by state). The amount reported in reinsurance recoverables related to these annuities that are purchased to fund structured settlements may be paid partially, or fully depending on the remaining balance, by the state guaranty funds if the insurer writing the annuities becomes insolvent.

22. FinREC believes that insurance entities should also determine if the following provisions are included in the reinsurance agreements (e.g., the existence of legal right of offset provisions), when evaluating the exposure of the reinsurance recoverable to credit impairment:

   a. Trust Accounts –Reinsurance agreements may require the reinsurer to set aside funds in a trust account for the benefit of the ceding insurance entity.

      FinREC believes that trust accounts included in reinsurance agreements likely will not qualify for the practical expedient in FASB ASC 326-20-35-6 that requires the continual adjustment of the amount of the collateral securing the financial asset as a result of fair value changes in the collateral.

      FinREC believes the funds set aside in a trust account are similar to collateral and insurance entities should consider the guidance on collateral in FASB ASC 326-20-30-10 "… an entity shall not expect nonpayment of the amortized cost basis to be zero solely on the basis of the current value of collateral securing the financial asset(s) but, instead, also shall consider the nature of the collateral, potential future changes in collateral values, and historical loss information for financial assets secured with similar collateral." Insurance entities should also consider the details of the individual reinsurance agreement including the trust account maintenance provisions and the nature of the assets in the trust, when considering the impact of the trust account on evaluating the exposure of the reinsurance recoverable for credit impairment.

   b. Funds Withheld - Reinsurance contracts may include a clause that allows the ceding entity to keep the premium called for under the reinsurance contract while reporting it as ceded to the reinsurer—a practice known as "funds withheld". This practice was developed to minimize credit exposure by reducing the cash transferred between the ceding entity and reinsurer when the ceding entity is expected to pay the subject losses quickly. The ceding company invests the cash withheld and recognizes a liability for the funds withheld (i.e., for the amounts due to the reinsurer). As amounts become due from the reinsurer, reinsurance arrangements generally provide that the ceding company reduce the funds withheld liability in satisfaction of amounts due from the reinsurer.

      When the invested assets related to the funds withheld arrangement are held as a segregated portfolio and in situations where the total investment return, including credit losses is passed through to the reinsurer, insurance entities should consider the volatility of the assets in the funds withheld, similar to how collateral is considered as discussed for Trust Accounts in paragraph 22a. In these situations where the funds withheld liability is adjusted for the total investment return of the referenced portfolio, if the assets supporting the funds withheld arrangement reduce in value, the amount of the funds withheld liability will decrease by a corresponding amount, and the amount of the recoverable that is exposed to credit risk will increase.

   c. Letters of Credit - Reinsurance agreements may require a letter of credit to be obtained by the reinsurer for the benefit of the ceding entity should the reinsurer default on its payment to the ceding entity for its portion of the paid claims.

      As stated in FASB ASC 326-20-30-12, "the estimate of expected credit losses shall reflect how credit enhancements (other than those that are freestanding contracts) mitigate expected credit losses on financial assets …" Insurance entities should consider the guidance on credit enhancements in FASB ASC 326-20-30-12, and whether the letter of credit is embedded within the reinsurance arrangement or is a freestanding contract, when determining if a letter of credit would be considered in the estimate of the expected credit losses on reinsurance recoverables.

   d. Recapture or commutation settlement provisions A commutation agreement is a settlement agreement between an insurance entity and reinsurer that provides for valuation, payment, and complete discharge of some or all of the obligations between the parties under a particular reinsurance contract.

      Insurance entities should consider recapture and commutation provisions in the reinsurance agreement, if any, when determining the exposure and the expected life of the reinsurance recoverable for credit impairment. Insurance entities should consider the likelihood of execution of these provisions when estimating the credit exposure period. For reinsurance recoverables at the inception of a reinsurance arrangement, assumptions regarding the likelihood of the execution of these provisions should be consistent with those made in assessing whether the reinsurance arrangement transfers significant insurance risk.

Government Established Indemnification Programs

23. A number of states have established mandatory indemnification mechanisms often referred to as associations or programs (hereinafter “programs”) that require all insurers selling certain types of insurance in that jurisdiction to be a member of the program. The purpose of such programs is to cover personal injury, property damage or other higher risk exposures that are either not being insured in the private insurance market or to provide coverage limits above what is available in the private insurance market. The programs are typically operated by an administrator. Active program members (those currently writing business in the state) typically receive annual assessments based on the estimated average cost of all program members’ incurred indemnifications. The programs may be designed to fully indemnify member insurers for covered losses and associated loss expenses through funds obtained from member assessments. Active members’ assessments are typically calculated on a per-item exposure basis that is consistent for all program members. Active program members are permitted by statute or regulation to recoup their assessments from underlying policyholders either through surcharges on premium or an adjustment to premium rates and the policyholders are required to pay the policy premium, including the surcharge or rate adjustment, to obtain coverage. The administrator typically adjusts current and future assessments (which are fully passed on to current policyholders) for the effects of positive and negative program experience.

24. The program administrator collects assessments from active program members (who recoup the assessments from underlying policyholders) and uses those assessments and any previous assessments and investment returns thereon, to indemnify program members for qualifying losses and related loss expenses in accordance with the legal requirements of the program.

25. Regardless of whether the program is accounted for as reinsurance, if an insurance entity has a receivable balance from such a program, in accordance with FASB ASC 326-20 the resulting receivable should be evaluated for collectability in determining if an allowance for credit losses is needed. Due to the unique characteristics of these programs, FinREC believes that insurance entities should evaluate each program individually to assess the collectability of cash flows in determining if an allowance for credit losses on the related receivable is needed.

26. FinREC believes that the following features or characteristics, if included within indemnification programs, should be considered when determining the extent to which these features may reduce credit exposure and if, after analysis, an allowance for credit losses is needed:
    a. Pursuant to their organizational and governing documents, the program and its administrators have the right and capacity to assess program members for the program’s indemnification obligations expected to be incurred.

    b. Program members are assessed for the full amount of losses and loss expenses expected to be incurred by program members each year. Adjustments are made to assessments in subsequent years for favorable and unfavorable program experience, which can be fully passed along to program members or directly to policyholders. To the extent that the assessments are not fully passed along to policyholders, the company retains credit exposure for them.

    c. Program members (indemnitees) have experienced no credit losses since inception of the program, and an evaluation of current conditions and reasonable and supportable forecasts is consistent with a continued expectation of no credit losses for program participants.

    d. Administration and servicing of the mechanism including the billing and collection of assessments and payment of indemnifications to program members continues to be performed and is expected to continue to perform without interruption.

    e. Program assessments and indemnifications have resulted in the achievement of off-setting cash flows to program members for the benefits provided to policyholders that acquire coverage under the program and indemnification payments received from the program to reimburse the member for the benefits paid to policyholders.

f. An evaluation of the financial condition of the program indicates resources, including consideration of assessment and reassessment mechanisms as described in paragraph 26(b), are present and operative to support obligations reported on their financial statements, if financial information is available.

27. FinREC also believes that insurance entities should monitor the potential for the passage of future legislation, or other changes that could impact the nature of the program that could result in indemnification not being provided or change the expectation of potential nonpayment.

Methods for Estimating Expected Credit Losses

28. Paragraphs 3-6 of FASB ASC 326-20-30 state:

> The allowance for credit losses may be determined using various methods. For example, an entity may use discounted cash flow methods, loss-rate methods, roll-rate methods, probability-of-default methods, or methods that utilize an aging schedule. An entity is not required to utilize a discounted cash flow method to estimate expected credit losses. Similarly, an entity is not required to reconcile the estimation technique it uses with a discounted cash flow method.
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> If an entity estimates expected credit losses using methods that project future principal and interest cash flows (that is, a discounted cash flow method), the entity shall discount expected cash flows at the financial asset's effective interest rate. When a discounted cash flow method is applied, the allowance for credit losses shall reflect the difference between the amortized cost basis and the present value of the expected cash flows. If the financial asset's contractual interest rate varies based on subsequent changes in an independent factor, such as an index or rate, for example, the prime rate, the London Interbank Offered Rate (LIBOR), or the U.S. Treasury bill weekly average, that financial asset's effective interest rate (used to discount expected cash flows as described in this paragraph) shall be calculated based on the factor as it changes over the life of the financial asset. An entity is not required to project changes in the factor for purposes of estimating expected future cash flows. If the entity projects changes in the factor for the purposes of estimating expected future cash flows, it shall use the same projections in determining the effective interest rate used to discount those cash flows. In addition, if the entity projects changes in the factor for the purposes of estimating expected future cash flows, it shall adjust the effective interest rate used to discount expected cash flows to consider the timing (and changes in the timing) of expected cash flows resulting from expected prepayments in accordance with paragraph 326-20-30-4A. Subtopic 310-20 on receivables—nonrefundable fees and other costs provides guidance on the calculation of interest income for variable rate instruments.
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> As an accounting policy election for each class of financing receivable or major security type, an entity may adjust the effective interest rate used to discount expected cash flows to consider the timing (and changes in timing) of expected cash flows resulting from expected prepayments. However, if the asset is restructured in a troubled debt restructuring, the effective interest rate used to discount expected cash flows shall not be adjusted because of subsequent changes in expected timing of cash flows.
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> If an entity estimates expected credit losses using a method other than a discounted cash flow method described in paragraph 326-20-30-4, the allowance for credit losses shall reflect the entity's expected credit losses of the amortized cost basis of the financial asset(s) as of the reporting date. For example, if an entity uses a loss-rate method, the numerator would include the expected credit losses of the amortized cost basis (that is, amounts that are not expected to be collected in cash or other consideration, or recognized in income). In addition, when an entity expects to accrete a discount into interest income, the discount should not offset the entity's expectation of credit losses. An entity may develop its estimate of expected credit losses by measuring components of the amortized cost basis on a combined basis or by separately measuring the following components of the amortized cost basis, including all of the following:
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> a. Amortized cost basis, excluding applicable accrued interest, premiums, discounts (including net deferred fees and costs), foreign exchange, and fair value hedge accounting adjustments (that is, the face amount or unpaid principal balance)

b. Premiums or discounts, including net deferred fees and costs, foreign exchange, and fair value hedge accounting adjustments.
c. Applicable accrued interest. See paragraph 326-20-30-5A for guidance on excluding accrued interest from the calculation of the allowance for credit losses.

An entity may make an accounting policy election, at the class of financing receivable or the major security-type level, not to measure an allowance for credit losses for accrued interest receivables if the entity writes off the uncollectible accrued interest receivable balance in a timely manner. This accounting policy election should be considered separately from the accounting policy election in paragraph 326-20-35-8A. An entity may not analogize this guidance to components of amortized cost basis other than accrued interest.

An entity shall estimate expected credit losses over the contractual term of the financial asset(s) when using the methods in accordance with paragraph 326-20-30-5. An entity shall consider prepayments as a separate input in the method or prepayments may be embedded in the credit loss information in accordance with paragraph 326-20-30-5. An entity shall consider estimated prepayments in the future principal and interest cash flows when utilizing a method in accordance with paragraph 326-20-30-4. An entity shall not extend the contractual term for expected extensions, renewals, and modifications unless either of the following applies:

a. The entity has a reasonable expectation at the reporting date that it will execute a troubled debt restructuring with the borrower.
b. The extension or renewal options (excluding those that are accounted for as derivatives in accordance with Topic 815) are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity.

29. FASB ASC 326-20-55-7 also states:

Because of the subjective nature of the estimate, this Subtopic does not require specific approaches when developing the estimate of expected credit losses. Rather, an entity should use judgment to develop estimation techniques that are applied consistently over time and should faithfully estimate the collectability of the financial assets by applying the principles in this Subtopic. An entity should utilize estimation techniques that are practical and relevant to the circumstance. The method(s) used to estimate expected credit losses may vary on the basis of the type of financial asset, the entity's ability to predict the timing of cash flows, and the information available to the entity.

30. In accordance with FASB ASC 326-20-30, an insurance entity should select an appropriate method to be used to estimate the allowance for credit losses based on information about past events, current conditions and reasonable, and supportable forecasts that is available to the entity.

Comments should be received by February 10, 2020, and sent by electronic mail to Kim Kushmerick at kim.kushmerick@aicpa-cima.com, or you can send them by mail to attention: Kim Kushmerick, 1345 Avenue of the Americas, New York, N.Y., 10105.