The Insurance Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key insurance issues.

The Insurance Expert Panel met on June 13, 2011 at the NYC AICPA offices.

The Expert Panel discussed the following topics:

1. **Insurance Contracts Project** – The Expert Panel discussed the current status and tentative conclusions of the joint Insurance Contracts Project, and decided to form a Task Force that will draft the AICPA Financial Reporting Executive Committee’s (FinREC) comment letter on a future FASB Exposure Draft. The Expert Panel also decided that the Task Force will start having calls over the summer to begin discussion on issues that have tentative conclusions.

2. **FASB ASU 2010-26: Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts** – The Expert Panel is in the process of finalizing a Technical Practice Aid (TPA) addressing retrospective application of FASB ASU 2010-26. It is expected that the TPA will be final in July 2011. The Expert Panel is also in the process of updating Chapter 10, Commissions, General Expenses, and Deferred Acquisition Costs, of the AICPA Life & Health Audit and Accounting Guide to include accounting and auditing information related to FASB ASU 2010-26. The Expert Panel will discuss a draft document at the July FinREC meeting, and then plans to expose the document for comment.

3. **Update on AICPA NAIC Activities**
   - **Proposed SSAP No. 101** – Proposed Statement of Statutory Accounting Principles No. 101, Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10, was exposed by the NAIC in March 2011 and the AICPA NAIC Task Force submitted a comment letter that can be found on the AICPA website at: http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Community/Insurance/Documents/SSAP_101_Comment_letter_April_27.pdf
   - **SSAP No. 43R** - In June 2010, nonsubstantive revisions were adopted to SSAP No. 43R, Loan-backed and Structured Settlements, to clarify the accounting for gains and losses between AVR and IMR for SSAP No. 43R securities. As an overall premise for realized gains and losses on SSAP No. 43R securities, the AVR and IMR analysis required and provision to allocate gains and losses between AVR and IMR is the same regardless whether the security is written down as a result of an impairment analysis or whether the security was...
sold. Although these revisions are considered nonsubstantive and are consistent with the Question and Answer Implementation Guide, it was identified that some entities had interpreted that guidance differently. Effective January 1, 2011, SSAP 43R also includes revised definitions of loan-backed and structured securities that clarify the scope of securities accounted for under the guidance of SSAP 43R. For many insurers, this clarification will result in securities previously accounted for under SSAP 26 now being accounted for under SSAP 43R.

c. **Adverse to GAAP Opinion** – During the summer and fall of 2010, the AICPA Auditing Standards Board (ASB) Restricted Use Reports Task Force had been discussing if there was a framework to treat the statutory basis of accounting in a manner similar to that of cash and tax basis of accounting. In October 2010, the ASB decided that the proposed framework did not justify treating statutory basis of accounting in a manner similar to that of cash and tax basis of accounting. In February 2011, the ASB discussed a letter received from an insurance company requesting the ASB revisit the discussion of whether statutory accounting could be treated in a manner similar to that of cash and tax basis of accounting. The ASB believed that the letter did not provide any new information that would give reason to reconsider its previous decision. However, the ASB is beginning the process of updating its strategic plan, and adding a project that would take a comprehensive look at fair presentation and would consider including insurance company statutory reporting.

4. **Property & Liability Audit and Accounting Guide** – The Expert Panel discussed that by the end of June 2011, a working draft of the accounting sections of the AICPA Property and Liability Audit and Accounting Guide would be posted on the AICPA website for a 60 day comment period. The Property & Liability Revamp Task Force plans to focus on reviewing and revising the auditing sections of the Guide over the summer.

   The working draft of the accounting sections can be found on the AICPA website at: http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/AcctgFinRptg/AcctgFinRptgGuidance/Pages/Working_Draft_Property_and_Liability_Insurance_Entities.aspx

5. **Next Meetings:** The Expert Panel hopes to meet with the members of the American Academy of Actuaries, and have its annual liaison meeting with the SEC Staff during the fall 2011.
The Insurance Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key insurance issues.

The Insurance Expert Panel met on December 14, 2011, at the DC AICPA offices, and the morning of December 15 at the SEC offices.

The Expert Panel discussed the following topics:

1. **Insurance Contracts Project** – The Expert Panel discussed the current status and tentative conclusions of the joint Insurance Contracts Project, and agreed to continue holding debrief conference calls after FASB and IASB board meetings.

2. **FASB ASU No. 2010-26: Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts** – Chapter 10, *Commissions, General Expenses, and Deferred Acquisition Costs*, of the AICPA Life & Health Insurance Entities Audit and Accounting Guide has been revised to include accounting information related to ASU No. 2010-26 and also to include two illustrative examples of how to determine deferrable acquisition costs. The examples included are meant to be illustrative, and the actual determination of deferrable acquisition costs under FASB ASC 944, *Financial Services—Insurance*, should be based on the facts and circumstances of an entity’s specific situation.

The panel was informed the online version of the Guide will be the only offering containing the new version of Chapter 10 until the 2012 paperback edition of the Life and Health Insurance Entities Audit and Accounting Guide is available.

3. **Update on AICPA NAIC Activities**
   
   a. **Michigan Catastrophic Claims Association** - The Michigan Catastrophic Claims Association (MCCA) has requested a report described as an agreed upon procedures report for premiums, that cannot be completed in its entirety as it does not comply with the standards and requirements for agreed upon procedures reports. The AICPA-NAIC Task Force has created a subgroup which reached out to the MCCA, and a separate discussion was held at the end of December 2011 with the MCCA orchestrated by the Michigan Society of CPAs. It was explained that the current draft of procedures and report required by the MCCA could not be complied with. In order to seek resolution to the matter, the Panel will reach out to parties in Michigan.
b. **Access to Workpapers** – The Expert Panel discussed complications related to domestic regulators seeking access to workpapers related to foreign subsidiary audits of U.S. maintained in the foreign location where the access was restricted.

c. **Update on AG 38 issue** – Members of the Panel provided an update related to the questioning of statutory reserve adequacy by regulators for certain annuity products with secondary guarantees. The Life Actuarial Task Force of the NAIC established a subgroup to evaluate the issue but no statements or decisions have been made to date.

d. **SSAP 101 Q&A** – In the beginning of 2012, the NAIC is expected to release for comment, a Questions and Answer document to address issues related to SSAP No. 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10*. The AICPA NAIC Task Force plans to discuss the document and comment if necessary.

4. **Update on Property & Liability Audit and Accounting Guide** – The Expert Panel discussed that the AICPA Financial Reporting Executive Committee (FinREC) received several informal comments on the revised accounting sections of the Property and Liability Insurance Entities Audit and Accounting Guide that was available on the AICPA website over the summer of 2011. The Property and Liability Revamp Task Force (Task Force) is in the process of reviewing the comments received and will discuss revised accounting sections with FinREC during the Spring of 2012. The Task Force plans to poll Property and Liability insurance entities, as well as accounting firms, to gather further information related to what information is included in premium deficiency calculations. The Panel agreed to send out a questionnaire to identify industry practice in the PDR calculation.

The Task Force is also in the process of revising the audit sections of this Guide and will submit them to the AICPA Audit Standards Board for review and clearance during the Spring of 2012.

5. **Miscellaneous** – The Expert Panel briefly discussed the updates on other FASB & IASB projects including Revenue Recognition, Investment Company Entity, and Financial Instruments projects.

**During the meeting on December 15, 2011, the SEC staff discussed the following topics of interest with the Expert Panel:**

1. **Disclosure Observations: Common Comments on Filing Reviews** - The SEC Staff noted that are looking forward to additional information on disclosures in the following areas:

   a. **Loss Contingency Disclosures** – The guidance in FASB ASC 450-10-50, *Contingencies – Loss Contingencies*, should be followed when determining what information related to legal proceedings and loss contingencies should be disclosed.

   b. **Income Taxes** – The disclosures related to income taxes should the split between domestic and foreign taxable income, as well an explanation of items included in the tax rate reconciliation.

   c. **Exposure to Debt in Foreign Countries** – The disclosures should explain how much is at risk with foreign government issued debt. The SEC Staff noted that this requirement would also apply to investments in foreign financial institutions.

   d. **Municipalities** – The disclosures should explain any concentration in investments in municipalities or any states.

   e. **Investment Tables** – The SEC Staff noted they are looking at investment disclosures and investment tables for the quality of groupings of investments (by ratings). The SEC Staff also noted that it should be apparent in disclosures if management judgment resulted in a different internal rating of an investment as compared to a credit rating agency. The source of external rating information should also be clear in the disclosures.

   f. **ASU No. 2010-20, Financing Receivables** – Accounting policy on mortgage loans, loan modifications, collateral and impairments of these loans should follow the guidance in ASU No. 2010-20
g. Loss Reserves – As noted in past discussions, the SEC Staff explained that they are continuing to look for improved disclosures on significant changes in estimates and the underlying causes of changes to loss reserves, as well as why a change was recorded in the current year vs. a prior period.

h. Other-than-temporary Impairment – The disclosures should include information describing why or why not an asset was impaired, and what credit events occurred. When a credit loss is recorded the SEC Staff noted disclosures should include the assumptions used in making that decision.

2. FASB ASU 2010-26 Update – The SEC Staff inquired on the Expert Panel’s expectations on the impacts of the implementation of the new DAC standard. The Panel noted that there is no singular expectation for the impacts of implementation. Results will vary across both life and P&C insurers as the primary driver is the facts and circumstances (e.g., product mix, distribution methods etc.) of each company.

3. Medical Loss Ratio – The Expert Panel provided an update to the issues regarding the Medical Loss Ratio for health insurers which was first calculated in 2011. The Panel highlighted key issues such as the difference in reserve estimates for the MLR and financial statements as well as inclusions/exclusion of investment income, brokers fees and taxes within the calculation.

4. Insurance Contracts Project – The Expert Panel discussed the current status and tentative conclusions of the joint Insurance Contracts Project with the SEC Staff including a summary of the key differences between the FASB and IASB decisions as they currently stand, and the concerns of the panel. The Expert Panel also offered to provide the SEC Staff with an education session to provide more detail into the current issues related to the project.

5. Miscellaneous – The Expert Panel and SEC Staff also discussed feedback from the AICPA National Conference on Current SEC and PCAOB Issues from the prior week. This involves a discussion of the use of pricing sources in the determination of fair value and its’ impacts on insurance companies and their auditors. The Expert Panel also provided copies of “Insurance Industry Developments 2011/12 Audit Risk Alert to the SEC Staff and updated the status of the overhaul of the Audit and Accounting Guide, Property Liability Entities” which is expected to be completed in the Fall 2012.
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The Insurance Expert Panel met on October 2, 2012, at the DC AICPA offices, and had a morning expert panel meeting and afternoon liaison meeting with members of the American Academy of Actuaries (AAA).

The Expert Panel discussed the following topics:

1. Practice Issues

   a. Statutory and Dividend Restriction Disclosures within a Registrant’s Footnotes – The Expert Panel discussed that the SEC staff has recently challenged several insurance industry registrants concerning their statutory capital and dividend restriction disclosures. The Expert Panel decided to include reference to the following required disclosures in the 2012/2013 - Insurance Audit Risk Alert:

      - GAAP disclosures on Statutory-basis information under paragraphs 1-6 of FASB ASC 944-50

      - For Registrants:

         o Equity disclosure requirements under Regulation S-X, Rule 7-03(23)(c).

         o Dividend restriction disclosure requirements under Regulation S-X, Rule 4-08(e)

   b. Loss Recognition – Profits Followed by Losses – The Expert Panel discussed that due to the extended low interest rate environment, some insurance products might be in a situation with positive overall margin, but profits in earlier years with losses expected in later years. The Expert Panel decided to form a Subgroup to explore if any useful information could be provided to insurance entities applying the premium deficiency guidance in FASB ASC 944-60-25-9.

   c. Offsetting – The Expert Panel discussed whether the disclosure requirements of FASB ASU 2011-11, Balance Sheet - Disclosure About Offsetting Assets and Liabilities, would apply to financial assets and liabilities related to reinsurance agreements (funds held, payable to reinsurer, ceding commissions) that are settled on a net basis. The Expert Panel noted that reinsurance assets and liabilities are shown gross on the insurance entity’s balance sheet, but the depending on the agreement, the accounts can be settled between the reinsurer and direct writer on a net basis.

Per the October 31, 2012 FASB Board Action Alert:

The scope of the proposed Update would be limited to derivatives, repurchase agreements and reverse repurchase agreements, and securities lending and securities borrowing arrangements.
2. Regulatory Issues

a. Use of Captives and Special Purpose Vehicles – During the spring of 2012, the NAIC’s Captive and Special Purpose Vehicle Use Subgroup issued a white paper to address state authority, confidentiality and transparency, types of business ceded to captives and SPVs, capitalization, credit for reinsurance, holding company analysis considerations. The Expert Panel discussed that it appears that the NAIC Subgroup is planning to expose a revised white paper on this topic by the end of October 2012, and that there will not be any impact to yearend reporting for 2012 Statutory basis financial statements.

b. Update on MCCA DUP – The Expert Panel discussed that members of the AICPA NAIC Task Force have reviewed the revised Michigan Catastrophic Claims Association (MCCA) agreed upon procedures report (related to premiums based on member’s total written car years of insurance written in Michigan) and that it appears to be in accordance with the GAAS guidance for agreed upon procedures.

c. AG 38 – The Expert Panel discussed Actuarial Guideline 38 (AG 38) and noted that effective December 31, 2012 the revisions are as follows:

i. A new Section 8D on inforce business as of December 31, 2012, would apply to policies issued on or after July 1, 2005, and requires the use of one of two specified methodologies. The primary reserve methodology would produce reported reserves equal to the greater of reserves determined using the company’s methodology and assumptions as of December 31, 2011, and reserves determined using the principles-based reserving (PBR) deterministic reserve requirements in the valuation manual as adopted by the A Committee on August 7, 2012, with a few modifications.

ii. A new Section 8E would apply to policies issued after January 1, 2013. The new guidance outlines the methodology for determining the minimum gross premium for specified safe harbor designs (method I) as well as a methodology to be used for other designs (method II).

On September 12, 2012, the NAIC announced adoption of its bifurcated framework for universal life policies with secondary guarantees. The revised AG 38 anticipates a completed and implemented principles based reserving model beginning on January 1, 2013, but will guide the design of policies and the reserve calculations until PBR is completed. The Expert Panel decided to remind auditors to work with the company’s actuaries to ensure they have properly interpreted and implemented the revisions to AG 38 in the upcoming Audit Risk Alert.

3. Update on Property & Liability Audit and Accounting Guide – The AICPA Auditing Standards Board is in the process of reviewing the audit sections of the Guide for clearance. It is expected that the Guide will be issued during the first quarter of 2013.

During the liaison meeting with the AAA, the following topics were discussed:

1. IASB Insurance Contracts Project
2. FASB Exposure Draft on liquidity/interest rate disclosures
3. Regulatory Issues
4. The accrual of health insurer fees and payments for reinsurance premiums
6. Practice Notes
7. ASOP modifications
8. Update on new TPAs on ASU 2010-26
9. Update on status of AICPA Audit and Accounting Guide Property and Liability Insurance Entities

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Insurance Expert Panel

Highlights of the December 12–13, 2012, Meeting

The Insurance Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key insurance issues.

The Insurance Expert Panel met on December 12, 2012 at the DC AICPA offices, and the morning of December 13 at the SEC offices.

The Expert Panel discussed the following topics:

1. Practice Issues
   a. GAAP
      i. Statutory Capital and Dividend Restriction Disclosures within a Registrant’s Footnotes — The Expert Panel discussed that it could be difficult to determine group level amounts due to complicated legal structures and information being on different basis of accounting (GAAP and Statutory) and subject to multiple regulatory regimes.
      ii. Loss Recognition (gains followed by losses) — The Expert Panel discussed that due to the extended low interest rate environment, some insurance products might be in a situation with positive overall margin, but profits in earlier years with losses expected in later years. A Subgroup of the Expert Panel has been discussing if any useful information could be provided to insurance entities and auditors when applying the premium deficiency guidance in FASB ASC 944-60-25-9. The Expert Panel decided to ask several insurance industry groups for their feedback on the potential of this being a significant issue in the future. Based on this feedback, the Expert Panel will determine next steps.
      iii. Offsetting — At the October 2012 meeting, the Expert Panel discussed whether the disclosure requirements of FASB ASU 2011-11, Balance Sheet - Disclosure About Offsetting Assets and Liabilities, would apply to financial assets and liabilities related to reinsurance agreements (funds held, payable to reinsurer, ceding commissions) that are settled on a net basis. Since that time the FASB issued a proposed Accounting Standards Update, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, to clarify what is included in the scope of FASB ASU 2011-11. The Expert Panel noted that a revision needs to be made to the FASB Master Glossary to exclude insurance contracts from the scope of FASB ASU 2011-11, but that it appears that the intent is not to include financial assets and liabilities related to reinsurance agreements.
   b. Statutory
      i. Captives and Special Purpose Vehicles — The Expert Panel discussed that the NAIC’s project on captives is still a work in progress and no decisions have currently been made. Depending on the decisions made related to amounts of required capital or financing costs, changes in the requirements for Captives could have a significant impact on insurance entities.
ii. **NY Insurance Department Level interest scenario** – The Expert Panel and the NAIC Task Force (at their 11/29/12 meeting) discussed that one insurance entity was required to record Statutory reserves to meet the level interest scenario, but that this appears to be an individual case and currently not a trend. It was noted that insurers need to be aware of reserve adequacy, and the importance of cash flow testing especially in this extended low interest rate environment.

iii. **Statutory Reserving** – At the October 2012 meeting, the Expert Panel discussed the revisions for inforce and new policies under Actuarial Guideline 38 (AG 38) that are effective December 31, 2012. At the December 2012 meeting, the Expert Panel discussed that the NAIC has put together a task force comprised of actuaries that is working on emerging issues related to AG 38.

c. **International**

i. **IFRS 10, Consolidated Financial Statements** – The Expert Panel discussed that IFRS 10 appears to have lowered (in comparison to US GAAP) the thresholds for obtaining control that may result in additional situations requiring consolidation. It is noted that this could be a presentation issue for separate accounts, as certain funds under the separate account may require consolidation under the guidance in IFRS 10. The Expert Panel will continue to monitor this issue, and noted that separate account presentation, currently a single line item, is also an outstanding question for the Insurance Contracts Project.

ii. **IAS 12, Income Taxes** – The Expert Panel discussed that several insurance industry groups have commented to the IASB in response to current tentative conclusions pertaining to the recognition of deferred tax assets (DTAs) for unrealized losses on available-for-sale debt securities. The groups are concerned about the proposed amendment to IAS 12 that an action that results only in the reversal of existing temporary differences is not a tax planning opportunity because it does not create or increase taxable profit. The Expert Panel will continue to monitor this issue as it is discussed by the IASB.

d. **Audit**

i. **AU-C 600 Group Audits** – The Expert Panel discussed that under AU-C 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors) investments that are accounted for under the equity method are considered to be a component of the audit. If it is determined that a component is significant, then the group auditor of the financial statements needs to determine if it is appropriate to make reference to the audit of the financial information of the component by the component auditor in the audit opinion, or to assume responsibility for the audit of the financial information of the component. AU-C 600 lists out required activities for when the group auditor assumes responsibility for the audit of the financial information of the component that might exceed what is currently being done in practice.

   Certain alternative investments (hedge funds, private equity funds) are accounted for at fair value under GAAP (NAV approximation), and would be under AU-C 501, Audit Evidence—Specific Considerations for Selected Items (that addresses auditing investments held at fair value). The same investments would be accounted for under Statutory by SSAP No. 48 at underlying audited GAAP equity or Statutory equity of the investee, and would seemingly be under Au-C 600 since the investments are accounted for under equity method.

e. **Other**

i. **AICPA SME Exposure Draft** – The Expert Panel briefly discussed the proposed Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs), that is a self-contained, special purpose framework intended for use by privately-held small- to medium-sized entities (SMEs) in preparing their financial statements. The Expert Panel noted that insurance entities are not explicitly excluded from applying the FRF for SMEs, and believe that the document should state that it would not be appropriate for entities that require specialized accounting.

2. **FASB & IASB projects**

   a. **Insurance Contracts Project** - The Expert Panel discussed the current status and tentative conclusions of the joint Insurance Contracts Project.

   b. **Financial Instruments** – The Expert Panel discussed the FASB’s tentative conclusions on the financial instruments project that if certain conditions are not met, structured securities would be required to be reported at fair value with periodic
changes in fair value recognized in net income (FV-NI). The Expert Panel will continue to monitor this issue as it is discussed by the FASB.

c. **Revenue Recognition Standard** – The Expert Panel discussed that although insurance contracts are scoped out of the revenue recognition standard, the following products and services offered by insurance entities may be impacted by the standard:

   i. Administrative services organizations (claim administration)
   
   ii. Investment advisory services
   
   iii. Asset management and brokerage activities and services
   
   iv. Extended warranty business
   
   v. Title search contracts

3. **Insurance Audit Webinar** – Members of the Expert Panel will be participating in a January 15, 2013 webinar focusing on relevant issues for auditors of insurance entities to consider during yearend 2012 audits.

**During the meeting on December 13, 2012, the SEC staff discussed the following topics of interest with the Expert Panel:**

1. **Disclosure Observations: Common Comments on Filing Reviews** - The SEC Staff noted that they are looking forward to additional information on disclosures in the following areas:

   a. **GAAP Disclosures on Statutory Basis Information** - The disclosures related to information relating to stockholders’ equity, statutory capital and surplus, and the effects of statutory accounting practices on the entity’s ability to pay dividends to stockholders are required under GAAP and should not be labeled with qualifiers such as “unaudited” or “preliminary” when included in GAAP basis financial statements.

   b. **Dividend Restrictions** – The disclosures related to dividend restrictions required under Regulation S-X, Rule 4-08(e) should explain restrictions that subsidiaries have on the ability to transfer funds to the registrant. This should include all restricted dividends, including foreign and domestic subsidiaries, for both insurance and noninsurance subsidiaries.

   c. **Loss Reserves** – As noted in past discussions, the SEC Staff explained that they are continuing to look for improved disclosures on significant changes in estimates and the underlying causes of changes to loss reserves, as well as why a change was recorded in the current year vs. a prior period.

   d. **Low Interest Rate Environment** – The disclosures should provide specificity as to what insurance entities are doing with products in response to the current and predicted economic environment. The disclosures should also include amounts to quantify the exposure on guaranteed interest rate products.

   e. **Income Taxes** – The disclosures related to income taxes should show the split between domestic and foreign taxable income, as well an explanation of items included in the tax rate reconciliation.

   f. **Municipalities** – The disclosures should explain any material concentrations in investments in municipalities or any states.

2. **Accounting Issues** – The Expert Panel provided the SEC with an overview of the following accounting issues:

   a. **Statutory Reserving** – Potential future impact to disclosures related to the NAIC’s activities on Principle Based Reserving, Actuarial Guideline 38, and Captives.

   b. **IFRS 10** - Potential impact on separate accounts due to the application of IFRS 10.

   c. **IAS 12** - Insurance industry reaction to IASB proposed amendment to IAS 12 related to recognition of deferred tax assets for unrealized losses.

3. **Insurance Contracts Project** – The Expert Panel discussed the current status and tentative conclusions of the joint Insurance Contracts Project with the SEC Staff.

4. **Industry Challenges** – The Expert Panel provided the SEC with an overview of the challenges that insurance entities have been facing in the current and extended low interest rate environment, as well as the involved processes undertaken with determining estimates for significant catastrophes.

5. **Update on AICPA Projects** – The Expert Panel updated the SEC on the following AICPA activities:
a. The issuance of TIS section 6300.39, "Cumulative Effect of Change in Accounting Principle—ASU No. 2010-26" (AICPA, Technical Practice Aids), provides examples of items to consider when evaluating the direct effects of a retrospective application of ASU No. 2010-26; and TIS section 6300.40, "Deferrable Commissions and Bonuses Under ASU No. 2010-26" (AICPA, Technical Practice Aids), that answers the question: Are all commissions and bonuses deferrable?

b. Insurance Audit Risk Alert that was issued at the end of December 2012.


Insurance Expert Panel

Highlights of the August 20, 2013, Meeting

The Insurance Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key insurance issues.

The Insurance Expert Panel met with members of the American Council of Life Insurers “ACLI” on August 20, 2013 at the NY AICPA offices.

The Expert Panel and the ACLI discussed the following topics related to the FASB Exposure Draft, Insurance Contracts and the IASB Exposure Draft, Insurance Contracts:

1. Measurement
   a. Discount rate at inception (top-down vs. bottom-up; lock-in rate)
   b. Discount rate subsequent measurement; points beyond the yield curve

2. Cash Flows
   a. Bifurcation of cash flows for participating contracts
   b. Mirroring

3. Release from risk/runoff of margin
   a. Unlocking margin for changes in assumptions

4. Presentation
   a. Earned premium
   b. Investment component
Insurance Expert Panel

Highlights of the
August 21, 2013, Meeting

The Insurance Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key insurance issues.

The Insurance Expert Panel met with members of the American Insurance Association “AIA” on August 21, 2013 at the NY AICPA offices.


1. Two models (FASB) instead of one (IASB)
   a. Rationale for different approaches
2. Definition of Portfolio – clarifying the use of the term
3. Cash Flows
   a. Determining insurance contract liability through unbiased, probability-weighted discounted cash flow analysis every reporting period
4. Premium Allocation Method and Earning Process
   a. The qualifying criteria
5. Reinsurance
   a. Consistent treatment between reinsurance contract and the underlying contract
6. Presentation and Disclosure Issues
7. Other Issues
   a. Onerous Contract Test
   b. Acquisition Costs
   c. Scope
The Insurance Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key insurance issues.

The Insurance Expert Panel met with members of the American Council of Life Insurers “ACLI” on September 24, 2013 at the NY AICPA offices.


1. Presentation
   a. Insurance contracts revenue
   b. Investment component
   c. Disclosures

2. Transition
   a. Objective information
   b. Practical expedients
   c. Business combination/portfolio transfer

3. Reinsurance
   a. YRT reinsurance (PAA)
   b. Gain/loss at inception
   c. Ceding commission
   d. Credit risk

4. Measurement
   a. Unit of account
   b. Discount rate
c. Mirroring
The Insurance Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key insurance issues.

The Insurance Expert Panel met on December 18, 2013 at the DC AICPA offices in the morning for an Expert Panel meeting, and in the afternoon for a liaison meeting with members of the American Academy of Actuaries. The Insurance Expert Panel also met the morning of December 19 at the SEC offices.

The Expert Panel discussed the following topics:

1. GAAP Practice Issues:
   a. Patient Protection and Affordable Care Act (ACA) 3R – The Expert Panel discussed that a subgroup of individuals from the Insurance Expert Panel and the Healthcare Expert Panel had had several conference calls to discuss the various components of the Risk Adjustment Program, Reinsurance Program, and Risk Corridor Program (3Rs) and the related accounting complexities. The Subgroup identified that there appear to be a number of possible alternatives as to how to account for the programs. All of which are based on analogizing to existing sections of GAAP, as no section of GAAP appears to be clearly on point. Additionally the group discussed the estimation uncertainties associated with the new programs.
   b. Loss Recognition (gains followed by losses) – The Expert Panel continued the discussion that due to the extended low interest rate environment, some insurance products might be in a situation with positive overall margin, but profits in earlier years with losses expected in later years. It was noted that there might be some diversity in practice in applying the premium deficiency guidance in FASB ASC 944-60-25-9. The Expert Panel is considering if any additional information could help provide clarity.
   c. SASB Proposed Disclosure Standards – In November 2013, The Sustainability Accounting Standards Board (SASB) exposed a document for new disclosures of material sustainability by insurance entities. The SASB does not have the authority to set any disclosure standards, but rather brings items to the attention of the SEC. The AICPA does not plan to formally comment on the exposure document.

2. Statutory Practice Issues:
   a. Patient Protection and Affordable Care Act (ACA)-
i. **ACA Fee** – Insurers will first pay the health insurers fees as required under the ACA in 2014, based on 2013 premiums. The NAIC previously agreed that the 2014 fee should require only subsequent event disclosure in 2013.

There was much discussion at the 2013 Fall NAIC meeting on how to account for the ACA fees in subsequent years. The Statutory Accounting Principles Working Group (SAPWG) voted in favor of requiring the recognition of the full amount of the ACA fees as an expense and a liability on January 1 of the fee year. At the Accounting Practices and Procedures Task Force (AP&P TF), the parent committee of the SAPWG, this was overturned, and instead was changed to require the liability to be accrued as of December 31 of the data year (the year prior to the fee year). The E Committee, which is the parent of the AP&P TF, then rejected the action of the AP&P TF and instead adopted the SAPWG proposal (to recognize the fee on January 1 of the fee year).

The proposal now requires action by the Executive Committee and Plenary, which could adopt it at the Spring National Meeting in March 2014 or on an earlier conference call. The Outcome of this is uncertain.

ii. **3Rs** – At the 2013 Fall NAIC meeting, the Emerging Accounting Issues Working Group (EAIWG) exposed interpretation 13-04, *Risk Sharing Provisions of the Affordable Care Act*, on the proposed statutory accounting for the risk sharing provisions of the ACA. The EAIWG hopes to finalize the accounting in the first quarter of 2014.

b. **AG 38** – In September 2013 the NY Insurance Department issued a letter stating that insurance entities domiciled in NY would no longer be allowed to use principles under Actuarial Guideline (AG) 38, but would have to use REG 147. This would basically result in NY insurance entities being held to a higher standard for reserving for universal life contracts with a secondary guarantee.

c. **Principle Based Reserves (PBR)** – Currently only 7 states have adopted PBR, but there is belief by some at the NAIC that the use of PBR might help alleviate any problems with the use of captives. PBR requires a supermajority of states to adopt to become effective.

d. **Pension: Transition** – At the 2013 Fall NAIC Meeting, the EAIWG adopted INT 2013-03, *Clarification of OPEB and Pension Transition Surplus Deferral*, effective for year-end 2013. The EAIWG reaffirmed that it was never the intent that the deferral guidance in SSAP No. 92, *Accounting for Postretirement Benefits Other Than Pensions*, and SSAP No. 102, *Accounting for Pensions*, would result (on a net basis for each plan) in more favorable, subsequent surplus pension/OPEB positions when there are remaining unrecognized liabilities as a result of the reporting entity’s initial election for surplus deferral.

e. **Captives** – The Expert Panel discussed that the NAIC’s project on Captives is still a work in progress and no decisions have currently been made. Depending on the decisions made related to amounts of required capital or financing costs, changes in the requirements for Captives could have a significant impact on insurance entities.

The Expert Panel and members of the American Academy of Actuaries discussed the following topics:

1. **Proposal presented at the NAIC regarding Schedule P**
2. **Update on Academy projects**
3. **Regulatory issues**
   
   a. **Captives**
   
   b. **NY AG 38 position**
4. **3Rs (Risk Adjustment, Risk Corridors, and Reinsurance)**
5. **Insurance Contracts Project**
6. IAA work on actuarial standards for the eventual IASB insurance contracts standard

During the meeting on December 19, 2013, the SEC staff discussed the following topics of interest with the Expert Panel:

1. Disclosure Observations: Common Comments on Filing Reviews - The SEC Staff noted that they are looking forward to additional information on disclosures in the following areas:

   a. Low Interest Rate Environment – As noted in past discussions, the SEC Staff explained that they are continuing to focus on disclosures that provide specificity as to how insurance entities are handling products in response to the current and predicted economic environment. The disclosures should include:
      • Explanations of what businesses and products provide the most risks in the extended low interest rate environment.
      • Amounts that quantify the effects on results of future periods (i.e., if rates remain at this level, we expect the effects on XXX insurance contracts to be YYY). The SEC Staff noted that presenting the disclosures of the effects to guaranteed interest rate products that describe the guarantees and ranges by type of guarantee in tabular format helps to facilitate understanding.
      • A description of assets that will need to be reinvested, with a comparison of the average interest rate that the assets are currently invested in to what rate would be received if reinvested under the current economic environment.

   b. Statutory Capital - The disclosures related to information on stockholders’ equity, statutory capital and surplus, should include both the insurance entity’s actual amounts and the minimum amounts required by state regulators or state that minimum capital is not material to highlight any potential risks. The SEC Staff noted that is acceptable to state that “capital is well above the minimum required.” The AICPA pointed out to the SEC Staff that the disclosures may need to be supplemented with risk based capital requirements rather than only minimum capital requirements as the minimum capital in many jurisdictions is deminimous.

   c. Dividend Restrictions – The disclosures related to dividend restrictions required under Regulation S-X, Rule 4-08(e) should explain restrictions that subsidiaries have on the ability to transfer funds to the registrant. This should include all restricted dividends, including foreign and domestic subsidiaries, for both insurance and noninsurance subsidiaries.

   d. Loss Reserves – The SEC Staff continues to look for improved disclosures on significant changes in estimates and the underlying causes of changes to loss reserves, as well as why a change was recorded in the current year vs. a prior period. The SEC Staff indicated that tracking major CATs separately may aid in the clarity of the disclosures.

   e. Income Taxes – The disclosures related to income taxes should show the split between domestic and foreign taxable income, an explanation of items included in the tax rate reconciliation, as well as any deferred taxes on undistributed earnings.

2. Other Areas – The SEC Staff noted that they are aware of the following issues:

   a. Ceding Commissions –FASB ASC 944-30- 35-64 states that “proceeds from reinsurance transactions that represent recovery of acquisition costs shall reduce applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized.” The SEC has noted some recent instances of noncompliance with this guidance.

   b. Non-GAAP Ratios – The SEC Staff noted that there have been some instances of insurance entities altering the numerators or denominators of “pure vanilla” ratios commonly used in the insurance industry to offset certain revenue streams against expenses, when such offset is not in accordance with GAAP. The SEC Staff mentioned that although the standard ratios are not considered non-GAAP financial measures, any modifications would result in the ratios being considered non-GAAP financial measures that would be subject to additional requirements (i.e. Disclosures required under item 10(e) of Regulation S-K).


4. Accounting Issues – The Expert Panel provided the SEC with an overview of the accounting issues related to the Patient Protection and Affordable Care Act and the 3Rs.
The Insurance Entities Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the not-for-profit industry to deliberate and come to agreement on key issues.

The Insurance Expert Panel met on November 3, 2014 at the NY AICPA offices for a morning liaison meeting with members of the American Council of Life Insurers, and an afternoon liaison meeting with members of the American Academy of Actuaries.

The Expert Panel and members of the American Council of Life Insurers discussed the following topics:

1. Potential impact on insurers and audit firms based upon FASB’s tentative decisions (unlocking of assumptions, reporting the effect of the change in P/L, and reflect the change in the 4th quarter)
2. Reporting the effect of changes in P/L
   a. Retrospective approach
   b. Prospective approach
   c. Change in discount rate in P/L or OCI
3. Effect of tentative decisions on internal controls

The Expert Panel and members of the American Academy of Actuaries discussed the following topics:

1. Insurance Contracts Project:
   a. FASB: targeted improvements
      i. Short-duration contracts
      ii. Long-duration contracts
   b. IASB: participating contracts
2. Other FASB Projects
   a. Revenue Recognition and what kind of actuarial work could be impacted by these decisions:
   b. Financial instruments project
3. Other IASB Projects
   a. IASB macro-hedging
4. AAA Activities:
   a. Profits followed by losses practice note
b. Update on PGAAP practice note

5. PCAOB: consultation paper on auditing accounting estimates and fair value measurements
Insurance Entities Expert Panel

Highlights of the December 17-18, 2014, Meetings

The Insurance Entities Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key issues.

The Insurance Expert Panel met on December 17, 2014 at the DC AICPA offices for an Expert Panel meeting. The Insurance Expert Panel also met the morning of December 18 at the SEC offices.

The Expert Panel discussed the following topics:

1. **GAAP Practice Issues:**
   a. **Affordable Care Act (ACA): Funding** - The Expert Panel discussed the potential accounting impacts related to the expected shortfall in 2014 for ACA payments and whether the Center for Medicare and Medicaid Services (CMS) would have funds available to cover the shortfall. The Expert Panel noted that it would seem that collectability should be considered when determining if a receivable should be recognized related to the ACA risk corridor. These considerations should be applied to measurement for both GAAP and Statutory accounting.

   b. **FASB Definition of Public vs. Private** — The Expert Panel discussed the FASB’s definition of a Public Business Entity (“PBE”) in ASU 2013-12, noting that certain entities which were previously considered non-public, may now be considered a PBE. The Expert Panel observed that there are questions as to whether all insurance entities that file with the NAIC would be considered PBEs, and be required to follow applicable accounting and disclosure requirements for PBEs.

2. **Statutory Practice Issues:**
   a. **Access to Workpapers** - As requested by a subgroup of the NAIC, the AICPA NAIC Task Force has been working on a list of best practices related to access of audit documentation to be considered by both CPA firms and insurance regulators. The document attempts to balance regulators’ needs, examination efficiency, the ability of auditors and companies to prevent access to auditors’ workpapers by unauthorized persons, and the requirement for auditors to maintain control over audit documentation as required by generally accepted auditing standards.

   The Task Force submitted a document on January 30, 2015 and expects further discussion with the NAIC Subgroup.

   b. **AG 48** — The AICPA NAIC Task Force plans to submit comments on the NAIC’s proposed disclosures related to Actuarial Guideline (AG) 48, specifically asking for more parameters and specificity around the request for disclosures relating to “deviations in quality”.


c. **ACA - Segregated Premium** – A subgroup of the AICPA NAIC Task Force has been discussing requirements from a few states for additional auditor attestation related to amounts of premium reported separately for terminations of pregnancy within reporting for the ACA. Members of the Subgroup are in the process of contacting the states to determine how these requirements could be satisfied in accordance with generally accepted auditing standards.

3. **Revenue Recognition** – The Insurance Revenue Recognition Task Force is currently in the process of discussing several scope related issues related to the implementation of FASB ASC 606 for contracts accounted for under FASB ASC 944.

A fundamental question the task force is discussing is how contracts accounted for under FASB ASC 944 should apply the guidance in FASB ASC 606-10-15-2 and 15-4 related to the scope exemption and for contracts that may be partially within the scope of FASB ASC 606 and partially within the scope of other topics. The task force plans to submit related implementation issues to the AICPA Revenue Recognition Working Group and FinREC in the near future.

Additional information on the Insurance Revenue Recognition Task Force can be found at: [http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-Insurance.aspx](http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-Insurance.aspx)

During the meeting on December 18, 2014, the SEC staff discussed the following topics of interest with the Expert Panel:

1. **Disclosure Observations: Common Comments on Filing Reviews** - The SEC Staff noted that they are looking forward to additional information on disclosures in the following areas:
   
   a. **Deferred Acquisition Costs** – Clarifying disclosures that describe the nature and type of costs deferred, and the method used to amortize.
   
   b. **Loss Reserves** – The SEC Staff continues to look for improved disclosures on significant changes in estimates and the underlying causes of changes to loss reserves, as well as why a change was recorded in the current year vs. a prior period. Useful disclosures should include descriptions explaining the underlying causes of the changes at a disaggregated level.
   
   c. **Low Interest Rate Environment** – Disclosures that provide specificity as to how insurance entities are handling products in response to the current economic environment, and the expected effects on the financial statements.
   
   d. **Statutory Capital** - The disclosures related to information on stockholders' equity, statutory capital and surplus, should include both the insurance entity’s actual amounts and the minimum amounts required by state regulators or state that minimum capital is not material to highlight any potential risks.
   
   e. **Dividend Restrictions** – The disclosures related to dividend restrictions required under Regulation S-X, Rule 4-08(e) should explain restrictions that subsidiaries have on the ability to transfer funds to the registrant. This should include all restricted dividends, including foreign and domestic subsidiaries, for both insurance and noninsurance subsidiaries.

2. **Disclosure Effectiveness** – The Expert Panel provided the SEC with thoughts on how to manage the goal of efficient and effective disclosures, in the current environment of potential disclosure overload.

3. **Accounting Issues** – The Expert Panel provided the SEC with an overview of the potential impacts of the new revenue recognition standard to insurance entities.

4. **Insurance Contracts Project** – The Expert Panel provided the SEC with an overview of the status of both FASB’s targeted improvements to insurance contract accounting and IASB’s project on insurance contracts.
Insurance Entities Expert Panel

Highlights of the December 16-17, 2015, Meetings

The Insurance Entities Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key issues.

The Insurance Entities Expert Panel met on December 16, 2015 at the DC offices of KPMG for an Expert Panel meeting, and the morning of December 17 at the SEC offices.

The Expert Panel discussed the following topics:

1. **FASB ASU 2015-09 Implementation Issues:** The Expert Panel had initial discussions on the following issues related to the implementation of ASU 2015-09:
   a. Opinion language – GAAS & PCAOB
   b. Illustrative disclosures
   c. Claim counts/frequency
   d. Foreign exchange rates
   e. Acquisitions/dispositions
   f. Other entities that may apply the guidance

   The Expert Panel plans to continue discussing potential FASB ASU 2015-09 implementation issues and develop illustrative disclosures and opinion language to be included in the AICPA Insurance Audit and Accounting Guides.

2. **Statutory Practice Issues:**
   a. **FASB ASU 2015-09 Disclosures in Statutory Financial Statements** – As part of the process of determining any potential modifications to Statements of Statutory Accounting Principles (SSAPs) due to newly issued GAAP accounting standards updates, the NAIC will review the disclosures in FASB ASU 2015-09 to determine applicability.

   As explained in the AICPA Insurance Audit and Accounting Guides, the provisions of the NAIC manual preamble that state, "GAAP pronouncements do not become part of Statutory Accounting Principles until and unless adopted by the NAIC," or any other explicit rejection of a GAAP disclosure does not negate the requirements of paragraph .17 of AU-C section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks.

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Thus, if the NAIC rejects the disclosures in ASU 2015-09, the auditor still needs to consider the requirements of AU-C section 800.17. However, the auditor would not need to apply section AU-C 800.17 to any required supplementary information (RSI) because this section addresses the need for disclosures in order for the basic financial statements to achieve fair presentation. AU-C 730, *Required Supplementary Information*, explains that the auditor’s opinion on the basic financial statements does not cover RSI and by definition RSI is not part of the basic financial statements. Since RSI is not necessary for fair presentation of the basic financial statements, RSI would not be necessary to be included in statutory financial statements for fair presentation.

b. **NAIC AICPA Working Group** – As part of the NAIC’s initiative to eliminate any groups that do not meet frequently, the AICPA NAIC Task Force (Task Force) was asked if it would oppose the elimination of the NAIC AICPA Working Group (WG). The Task Force responded to the NAIC that it feels strongly that the NAIC AICPA WG is essential in serving as the sounding board to address the implications of potential statutory audit requirements and audit related inquiries by the insurance regulators, and should remain intact but can function via conference calls.


The TRG did not address either question, but the task force has had several discussions with the FASB Staff.

It is expected that the question of whether investment contracts within the scope of ASC 944 should be included in the scope exemption in FASB ASC 606-10-15-2(b) will be addressed in the upcoming FASB Technical Corrections Exposure Draft.

In response to discussions with the FASB Staff, the task force has submitted to the AICPA Revenue Recognition Working Group an implementation issue related to how contracts accounted for under ASC 944 should apply the scope exemption guidance in FASB ASC 606-10-15-2 and 15-4. After clearance by the Revenue Recognition Working Group and FinREC, a draft revenue recognition implementation issue will be exposed for informal comment later in 2016.

Additional information on the Insurance Revenue Recognition Task Force can be found at: [http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-Insurance.aspx](http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-Insurance.aspx)

During the meeting on December 17, 2015, the SEC staff discussed the following topics of interest with the Expert Panel:

1. **Disclosure Observations: Common Comments on Filing Reviews** –
   a. **Fair Value**: The SEC Staff’s comments mainly focused on recommended improvements to fair value disclosures to help users assess the valuation techniques and inputs for determining fair value. It was mentioned that the SEC had recently solidified its positions on what fair value disclosures should be provided and advised that registrants should not rely on past comment letter responses on this topic.

   The SEC Staff reminded registrants to consider the following (FASB ASC 820-10-50-1A) when determining if the fair value disclosure requirements of FASB ASC 820-10-50-1 have been met:
   a. The level of detail necessary to satisfy the disclosure requirements
   b. How much emphasis to place on each of the various requirements
   c. How much aggregation or disaggregation to undertake
   d. Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

   The Staff provided several examples of fair value disclosures that would not be adequate:
   i. Aggregation of several types of debt securities in a single class – the Staff explained that only securities with the same characteristics and level of fair value hierarchy should be aggregated. It is also assumed that securities with different fair value inputs would be aggregated into different classes, such as agency and nonagency asset backed securities.
   ii. Disclosure of valuation approach only – the Staff noted that an explanation of the specific valuation method used should be disclosed.
   iii. Disclose that valuation technique was a third party – the Staff explained that the valuation technique used by the third party should be disclosed, not just that it was performed by a third party.
   iv. Aggregation of all the valuation techniques and inputs that may be used for a class – the Staff explained that the disclosure should clearly indicate what inputs are used for each valuation technique, and which
classes use which specific technique and inputs. The Staff further noted that it is not appropriate to include valuation techniques that are not currently being used in the periods presented.

The SEC Staff also noted that recent insurance industry areas of comments include the following areas:

b. Changes in loss Reserves  
c. Minimum requirements related to statutory capital and surplus  
d. Dividend restrictions  
e. Impact of low interest rate environment

2. Accounting Issues  
   a. FASB ASU 2015-09, Disclosures about Short-Duration Contracts: The Expert Panel provided the SEC with observations on the following aspects of FASB ASU 2015-09:  
      i. Implementation issues  
      ii. Interaction with SEC Guide 6 disclosures
   
b. FASB ASU 2014-09, Revenue from Contracts with Customer: The Expert Panel provided the SEC with an overview of the potential impacts of the new revenue recognition standard to insurance entities.
   
c. Premium deficiency - profits followed by losses:
      There have been questions regarding how to apply the guidance in FASB ASC 944-60-25-9 related to premium deficiency for situations with overall positive profit margin, but profits followed by losses.

      FASB ASC 944-60-25-9, states: “A premium deficiency, at a minimum, shall be recognized if the aggregate liability on an entire line of business is deficient. In some instances, the liability on a line of business may not be deficient in the aggregate, but circumstances may be such that profits would be recognized in early years and losses in later years. In those situations, the liability shall be increased by an amount necessary to offset losses that would be recognized in later years.”

      The SEC Staff noted that for traditional contracts with locked in assumptions, depending on facts and circumstances, it would not object to a company in a profits followed by losses situation either:

      1) Accruing a liability, during the period of gains, to offset the losses using a dynamic method updated over time (when updating calculations if profits followed by losses no longer exists, the liability could be released over time). Registrants should discuss the specifics of each transaction with the SEC Staff, as the Staff may not accept all approaches for accruing the liability over time. OR

      2) Accruing an immediate liability to offset the present value of losses that would be recognized in later years (this would be considered a locked calculation not subject to reversal).

      The SEC Staff noted that it would expect companies to apply a consistent accounting policy for profits followed by losses.

      The SEC Staff explained that internal controls over financial reporting are required to identify contracts in profits followed by losses situations. The Staff also noted that the related disclosures should explain how the calculations will be handled if the liability is accrued over time, and entities should consider if this information should be included in the management discussion and analysis disclosures for changing trends if this is expected in the future.

3. FASB Projects: The Expert Panel provided the SEC with an overview of the status of the following projects:
   a. Insurance Contracts Project – FASB’s long-duration targeted improvements project.
   b. Financial Instruments – FASB’s classification and measurement and impairment projects.
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.
Insurance Entities Expert Panel
Highlights of the December 7-8, 2016, Meetings

The Insurance Entities Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key issues.

The Insurance Expert Panel met on the afternoon of December 7 and morning of December 8, 2016 for an Expert Panel meeting, and the afternoon of December 8 with the SEC Staff (the Staff) at the SEC offices.

The Expert Panel discussed the following topics:

1. **ASU 2015-09 Implementation Issues**: During 2016, the Expert Panel and members of the Staff had several discussions about the new disclosures of cumulative 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.

   Below is the link to the Insurance Expert Panel webpage for highlights of calls held on November 1 & 17, 2016 with observations from the Staff:

   The Expert Panel continued discussion on the following issues related to the implementation of ASU 2015-09:
   a. Opinion language – GAAS & PCAOB
   b. Illustrative disclosures

   The Expert Panel plans to continue discussing potential ASU 2015-09 implementation issues, and develop opinion language to be included in the AICPA Insurance Audit and Accounting Guides.

2. **Statutory Practice Issues**:
   a. **ASU 2015-09 Disclosures in Statutory Financial Statements**: As part of the process of determining any potential modifications to Statements of Statutory Accounting Principles (SSAPs) due to newly issued GAAP accounting standards updates, the NAIC is in the process of reviewing the disclosures in FASB ASU 2015-09 to determine applicability.

   If the NAIC rejects the disclosures in ASU 2015-09, the auditor still needs to consider the requirements of AU-C section 800.17, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks – Fair Presentation.
As noted in AICPA Technical Questions and Answers Section 9180.01: Required Supplementary Information in Historical Prior Periods and Auditor Independence of the Entity:

Reply—Generally accepted auditing standards require the auditor to be independent for any period being audited and covered by the auditor’s opinion. In the absence of any separate requirement in the particular circumstances of the engagement, the auditor’s opinion on the basic financial statements does not cover RSI. In accordance with AU-C section 730, RSI is not part of the basic financial statements. Furthermore, the specified procedures required to be performed on RSI are limited and do not provide the auditor with sufficient appropriate audit evidence to express an opinion or provide any assurance on the RSI.

Since RSI is not necessary for fair presentation of the basic financial statements, it would not be necessary for RSI to be included in audited statutory-basis financial statements for fair presentation.

The AICPA NAIC Task Force is working with the AICPA Auditing Standards Board to develop an audit interpretation to help auditors evaluate the requirements of AU-C Section 800 for application to statutory-basis financial statements.

b. Principle-Based Reserving (PBR): The Expert Panel had initial discussions on potential audit considerations related to the new PBR standards. Insurers can voluntarily adopt PBR for new business starting January 1, 2017 with full adoption required by January 1, 2020. Adoption is prospective and can be implemented on a product by product basis.

It was decided that a subgroup (between the Expert Panel and AICPA NAIC Task Force) should be formed to discuss and develop audit considerations related to PBR that will be included in the AICPA Audit and Accounting insurance guides. The appointed subgroup will start discussions in the fall of 2017.

3. Revenue Recognition: During 2016, the AICPA Insurance Revenue Recognition Task Force (task force) continued to discuss questions related to application of the scope guidance in FASB ASC 606-10-15-2 and 15-4 to contracts sold by insurance entities and accounted for under FASB ASC 944.

The task force has had several discussions with the FASB Staff and has submitted a revenue recognition implementation issue to the AICPA Revenue Recognition Working Group that incorporates the following information from the FASB Accounting Standards Update (ASU) 2016-20: Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

BC13 – BC15 of FASB ASU 2016-20: Technical Corrections and Improvements to Topic 606, Revenue from Contracts from Customers, state:

BC13. The amendment to paragraph 606-10-15-2(b) clarifies that all contracts (that is, not only insurance contracts) within the scope of Topic 944, Financial Services – Insurance, are excluded from the scope of Topic 606. This exclusion applies to contracts within the scope of Topic 944 such as life and health insurance, property and liability insurance, title insurance, and mortgage guarantee insurance. Topic 944 provides guidance on accounting and financial reporting for those contracts, including guidance that is applied to both insurance and investment contracts to determine the revenue recognition for fees. Investment contracts (defined in the Master Glossary as long-duration contracts that do not subject the insurance entity to risks arising from policyholder mortality or morbidity) are included within the scope of Topic 944. For example, Subtopic 944-825 provides guidance on the accounting for and the financial reporting of financial instruments, including guidance on investment contracts. Those contracts are accounted for under a deposit accounting model, similar to financial instrument contracts issued by entities other than insurance entities. As noted in paragraph 606-10-15-2(c), financial instruments issued by entities other than insurance entities also are excluded from the scope of Topic 606, and, therefore, this technical correction is consistent with the existing scope exceptions for insurance and financial instrument contracts.

BC14. Contracts within the scope of Topic 944 are excluded from the scope of Topic 606. That scope exception applies to contracts within the scope of Topic 944 and does not apply to all contracts of insurance entities. An insurance entity might need to consider whether a contract with a customer is for goods or services that are not within the scope of Topic 944. For example, the Board understands that a contract for administrative services (such as claims processing) without any insurance element is at present accounted for as a revenue arrangement within the scope of Topic 605. The Board expects that those types of service arrangements would be accounted for under Topic 606.
BC15. The Board has received questions about the interaction of the guidance in paragraph 606-10-15-2 and the guidance in paragraph 606-10-15-4. Some stakeholders questioned whether the guidance in paragraph 606-10-15-4 requires an insurance entity to bifurcate contracts (within the scope of Topic 944) into elements within the scope of Topic 944 and elements within the scope of Topic 606. The guidance in paragraph 606-10-15-4 is applied after applying the guidance in paragraph 606-10-15-2. For example, if an entity reaches an appropriate conclusion that it has a contract entirely within the scope of Topic 944, then the entity would not apply the guidance in paragraph 606-10-15-4. This is because there are no elements of the contract within the scope of Topic 606 based on the entity’s conclusion that the entire contract is included within the scope of Topic 944. This assessment is similar to how an insurance entity determines whether elements of contracts are within the scope of Topic 944 or Topic 605 currently. There could be other activities in the contract, such as insurance risk mitigation or cost containment activities that relate to costs to fulfill the contract within the scope of Topic 944. Those fulfillment activities would not be within the scope of Topic 606 and, instead, similar to current practice, would be considered part of the contract within the scope of Topic 944. This assessment is similar to how an insurance entity determines whether elements of a contract are within the scope of Topic 944 or Topic 605 today.

At the January 2017 FinREC meeting, the draft revenue recognition implementation issue was cleared for exposure and will be posted to the AICPA Insurance Revenue Recognition Task Force webpage on February 1, 2017 for a 60 day informal comment period.

The task force is also developing a revenue recognition implementation issue on extended warranty contracts issued by non-insurance entities. The issue will focus on the changes in accounting that result from moving from current guidance in FASB ASC 605, which is analogous to the accounting for short-duration insurance contracts under FASB ASC 944 with the exception of capitalizable DAC costs, to the new FASB ASC 606 model.

Additional information on the AICPA Insurance Revenue Recognition Task Force can be found at: [http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-Insurance.aspx](http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-Insurance.aspx)

On December 8, 2016 the Staff discussed the following topics of interest with the Expert Panel:

1. **Disclosure Observations:**
   a. **Non-GAAP Measures:**
      i. **Prominence:** The Staff noted that companies should present the GAAP measure first in the required non-GAAP reconciliation (i.e., reconciling from GAAP to the non-GAAP measure) because (a) leading with the non-GAAP measure gives it undue prominence and (b) it will be more intuitive/easier for readers to determine what is being added or subtracted from the GAAP measure to arrive at the non-GAAP measure. The Staff also noted that if an unreasonable effort is needed to reconcile a forward-looking non-GAAP measure to a GAAP measure, then the reconciliation may be omitted pursuant to Item 10(e)(1)(ii)(B) of Regulation S-K provided that the registrant discloses the reason(s) for its omission (e.g., unreasonable efforts) and identifies the information that is unavailable and its probable significance in a location of equal or greater prominence. The Staff also mentioned that discussion and analysis should be provided to describe changes in GAAP measures in a location with equal or greater prominence to the non-GAAP measure, and that a full non-GAAP income statement or its equivalent should not be disclosed under any circumstance. See the Division of Corporation Finance’s Compliance & Disclosure Interpretation ("C&DI") 102.10.
   2. **Individually Tailored Accounting Principles:** The Staff explained that companies should use caution when presenting non-GAAP measures that use individually tailored accounting principles. It was also noted that in limited situations where companies make certain adjustments to revenue based on facts and circumstances (e.g., adjustments that reflect the expected effects of ASC 606), these adjustments should be discussed in advance with the staff. See C&DI 100.04.
   3. **Per Share Measures:** The Staff noted that non-GAAP liquidity measures presented on a per share basis are prohibited. C&DI 102.05 notes that whether a non-GAAP per share measure is prohibited depends on whether the measure “can” be used as a liquidity measure, even if management presents it solely as a performance measure. When analyzing these questions, the Staff will focus on the substance of the non-GAAP measure and not management’s characterization of the measure. See C&DI 102.05.
   4. **Income Taxes:** The Staff explained that companies are required to display tax impacts for non-GAAP measures, but that the presentation should be on a gross basis, with the tax effects shown separately. The effective tax rate(s) applied to the adjustments should be a rate.
appropriate for the circumstances; i.e., the rate should make sense in the context of the non-GAAP income rather than using the effective rate applicable to the reported GAAP income. See the Division of Corporation Finance’s Compliance & Disclosure Interpretation ("C&DI") 102.11.

5. Misleading Measures – The Staff highlighted C&DI 100.01 and its discussion about measures that exclude recurring cash operating expenses.

ii. The Staff discussed the following insurance-specific themes related to non-GAAP measures:

1. Labeling: While no specific comment letters have been issued by the Staff to-date, they expressed broad concern to the Expert Panel over labeling non-GAAP measures with similar titles as GAAP measures. Specifically the Staff noted that “operating income”, “operating earnings” or related terms that include the word “operating”, are used by many insurers to describe non-GAAP performance measures and that media outlets and newswires often quote these measures from companies’ press releases and other filings without mentioning the comparable GAAP measures. As such, the Staff indicated their concern with insurers continuing to use the term “operating” to label their primary non-GAAP measure, given the similarity of this term used in GAAP measures. The Staff is expecting all companies that have this type of label for their non-GAAP measure to change this label in their press releases and filings such that when these non-GAAP measures are quoted in newswires and other media outlets that they cannot be confused with a defined GAAP measure. The Staff did not give a timeframe for when it expects registrants to make this change, nor did they indicate what may be an acceptable label, other than indicating that insertion of the phrase “non-GAAP” or “adjusted” before the word “operating” would be possible approaches to consider if the term “operating” continued to be used. The Staff noted that it has seen instances within filings where the same label is used to represent different amounts throughout the filing and does not think this practice is appropriate.

2. Catastrophe (CAT) Losses: The Staff indicated that they were unclear why some companies present non-GAAP earnings measure(s) that exclude insurance CAT losses, and would benefit from insight as to why the exclusion is viewed as appropriate under Regulation G, Regulation S-K and the Staff’s C&DIs and consistent with the underlying business of providing insurance coverage, in which CAT losses are typically normal, recurring cash operating expenses. The Staff acknowledged that their comment was not aimed at the practice of separately quantifying and analyzing CAT losses when explaining earning trends, such as in Management’s Discussion and Analysis.

b. Common Comments on Filing Reviews –

i. Fair Value: In the prior year the Staff discussed observations with respect to fair value disclosures. See the link below to the December 2015 Insurance Expert Panel meeting minutes:


Their objective is to help users assess the valuation techniques and inputs for determining fair value. In this regard, the Staff continued to observe instances of disclosures in the current year that:

1. Included the overall valuation approach without describing the specific valuation technique;
2. Were incomplete or vague as to the specific valuation technique;
3. Omitted a description of the inputs used for the valuation technique; and/or
4. Were not made by class.

The Staff also pointed out that FASB ASU 2016-19 Technical Corrections and Improvements reaffirms that disclosing a valuation approach does not satisfy the requirement to describe a specific valuation technique. Because the ASU may trigger a need for revised or incremental disclosure about specific valuation techniques, the Staff wanted to highlight valuation technique disclosures again this year so that disclosures comply with the ASU no later than its effective date.

ii. Change in Loss Reserves: The Staff mentioned that it continues to look for improved disclosures in MD&A on significant changes in estimates and the underlying causes of changes to loss reserves. Useful disclosures should include descriptions and quantification explaining the various underlying causes of the changes at a disaggregated level. For example, if qualitative disclosures cited four factors for a net reserve change, each should be separately quantified.
iii. **Accounting Policy Disclosures:**
1. Deferred Acquisition Costs (DAC) Capitalization: The Staff noted that companies should ensure it is clear from their accounting policy disclosure that capitalized acquisition costs are “directly related” to the “successful” acquisition of new or renewal insurance contracts.
2. DAC – Contract Modifications: The Staff also observed that companies should disclose their accounting policy for internal replacements and the impact on DAC in connection with contract modifications, under FASB ASC 944-30-35 and 30-40 (i.e., whether certain modifications would result in a substantially unchanged or changed contract).

iv. **Comment Process** – The Staff reiterated that comments are an invitation to dialogue and not necessarily a request to revise disclosure.

2. **Accounting Issues**
   a. **ASU 2014-09, Revenue from Contracts with Customer:** The Expert Panel provided the Staff with an overview of the potential impacts of the new revenue recognition standard to insurance entities, and revenue recognition implementation issues that the AICPA Insurance Revenue Recognition Task Force is in the process of evaluating.

3. **FASB Projects:** The Expert Panel provided the Staff with an overview of the following FASB Proposed Accounting Standards Updates, including key observations and concerns raised in the AICPA’s comment letters to the FASB, which can be found on the FASB website (www.fasb.org):
   a. Financial Services – Insurance (Topic 944) Targeted Improvements to the Accounting for Long-Duration Contracts
   b. Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities
The Insurance Expert Panel serves the needs of AICPA members on financial and business reporting and audit and attest matters. The expert panel protects the public interest by bringing together knowledgeable parties in the insurance industry to deliberate and come to agreement on key issues.

The Insurance Expert Panel met on the afternoon of December 6 and morning of December 7, 2017 for an Expert Panel meeting, and the afternoon of December 7 with the SEC Staff (the Staff) at the SEC offices.

The Expert Panel discussed the following topics:

1. GAAP Practice Issues:
   a. FASB Project - Targeted Improvements to Long-Duration Contracts: The Expert Panel discussed the revised wording for the definition of market risk benefits presented at the November 1, 2017 FASB meeting, and applied the revised definition to several types of contracts. The FASB tentative decisions as of November 1, 2017 can be found at: http://www.fasb.org/cs/ContentServer?c=Document_C&cid=1176164382615&d=&pagename=FASB%2FDocument_C%2FDокументPage
   b. FASB ASU 2016-13: Financial Instruments—Measurement of Credit Losses on Financial Instruments: Members of the Expert Panel participate in the AICPA Depository Institutions Expert Panel Accounting Subgroup Task Force, and updated the group on recent activity. More information related to the FASB credit impairment standard can be found on the AICPA’s webpage: Accounting for Credit Losses

2. Statutory Practice Issues:
   a. The Expert Panel discussed several issues that are currently on the NAIC’s agenda:
      i. Risk Transfer: Earlier this year, the NAIC Statutory Accounting Principles Working Group (SAPWG) exposed a Form A, Ref # 2017-28, relating to risk transfer. The NAIC has recently decided to form a drafting group to discuss possible revisions to NAIC Statements of Statutory Accounting Principles for enhanced guidance on determining risk transfer in reinsurance contracts.
   b. AICPA Auditor Reporting Task Force – The AICPA Auditing Standards Board (ASB)’s Auditor Reporting Task Force is proposing changes to AU-C 800, Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, to converge with changes made to the related international standard. Among the considerations is whether to introduce the notion of a compliance framework which would require only that the financial statements be presented in accordance with the
special purpose framework as opposed to a fair presentation framework in which the auditor is required to stand back and determine whether disclosures beyond those required by the framework are necessary for the financial statements to be fairly presented. Such a change might eliminate the need for a dual opinion on the statutory financial statements (an opinion on GAAP and an opinion on the regulatory basis).

As a reminder, in May 2017 the ASB approved revisions to the AICPA Insurance Audit and Accounting Guides to address application of AU-C 800 to financial statements prepared in accordance with the insurance statutory basis of accounting. The revisions can be found in the Insurance Guides and on the Expert Panel webpage:

- Chapter 3: Sources of Accounting Principles and Reporting Requirements, of the AICPA Audit and Accounting Guide Life and Health Insurance Entities
- Chapter 1: Nature, Conduct, and Regulation of the Business, of the AICPA Audit and Accounting Guide Property and Liability Insurance Entities

3. Revenue Recognition: During 2017, the AICPA Insurance Revenue Recognition Task Force (task force) finalized revenue recognition implementation issue #9-1: Considerations for applying the scope exception in FASB ASC 606-10-15-2 and 606-10-15-4 to contracts within the scope of ASC 944. The issue discusses questions related to application of the scope guidance in FASB ASC 606-10-15-2 and 15-4 to contracts sold by insurance entities and accounted for under FASB ASC 944. The issue is available in the AICPA Audit and Accounting Guide: Revenue Recognition, and will be available in the 2018 editions of the AICPA Insurance Guides.

At the January 2018 AICPA Financial Reporting Executives Committee (FinREC) meeting, the task force will discuss a revenue recognition implementation issue on extended warranty contracts issued by non-insurance entities. The issue will focus on the changes in accounting that result from moving from current guidance in FASB ASC 605, which is analogous to the accounting for short-duration insurance contracts under FASB ASC 944 with the exception of capitalizable DAC costs, to the new FASB ASC 606 model.

Additional information on the AICPA Insurance Revenue Recognition Task Force can be found at:

Revenue recognition implementation guidance that may be of interest to insurers can be found on the following task force webpages:
- Asset management revenue recognition task force
- Broker dealer revenue recognition task force

On December 7, 2017 the Staff discussed the following topics of interest with the Expert Panel:

1. Disclosure Observations:
   a. Non-GAAP Measures: The Staff mentioned areas that still require improvement:
      i. Labeling: the Staff reiterated comments made to the Expert Panel over labeling non-GAAP measures with similar titles as GAAP measures at the December 8, 2016 meeting (meeting minutes are available on the Insurance Expert Panel webpage), and again on December, 4, 2017, at the 2017 AICPA/SEC Conference.

      Specifically the Staff reminded panel members that “operating income”, “operating earnings” or similar terms are used by some insurers to describe non-GAAP performance measures and that media outlets and newswires often quote these measures from companies’ press releases and other filings without mentioning the comparable GAAP measures. As such, the Staff repeated their concern with insurers continuing to use the terms “operating earnings,” “operating income” and similar terms to label their non-GAAP measures, given that these terms are the same as, or confusingly similar to titles or descriptors used for GAAP measures. The Staff is expecting all companies that have this type of label for their non-GAAP measure to change this label in their press releases and filings. They expect all affected companies to “self-correct” rather than have to send multiple comment letters to registrants.
ii. Income Taxes: The Staff explained that companies are required to display tax impacts for non-GAAP measures, but that the presentation should be on a gross basis, with the tax effects shown separately. The effective tax rate(s) applied to the adjustments should be a rate appropriate for the circumstances; i.e., the rate should make sense in the context of the non-GAAP income rather than using the effective rate applicable to the reported GAAP income. See the Division of Corporation Finance’s Compliance & Disclosure Interpretation (“C&DI”) 102.11.

b. FASB ASU 2015-09: Disclosures about Short-Duration Contracts – The Staff discussed observations related to disclosures required by FASB ASU 2015-09, and referenced the objective of those disclosures as explained in BC2 of ASU 2015-09, “…to increase transparency of significant estimates made in measuring the liability for unpaid claims and claim adjustment expenses, improve comparability by requiring consistent disclosure of information, and provide financial statement users with information to facilitate analysis of the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities and the development of loss reserve estimates.” The Staff added that the initial year focus was on compliance. Registrants should ensure the analysis provided in MD&A of reserve development is consistent with the data depicted in the tables.

i. Level of Disaggregation: The Staff expects insurers to provide sufficient information to ensure that users are able to understand estimates for the liability for unpaid claims and claim adjustment expenses. This includes providing additional development tables to ensure that the components of the aggregate development amount in the rollforward of the claim liability table are adequately covered. The Staff discussed that the nature and extent of disclosures required by ASU 2015-09 should be dynamic, such that if there are changes in the business or significant development in a particular line of business, then the level of disaggregation should be reassessed to determine the number of loss reserve tables needed. This could result in an increase or decrease in loss reserve tables being presented from one period to the next. The Staff also discussed that the need for loss reserve tables should be assessed for short tail lines of business that are currently included as reconciling items to the balance sheet, noting that although some of these lines of business may not have significant liabilities for unpaid claims and claim adjustment expenses, there may be significant incurred and paid claim activity based on reserve rollforward disclosures.

ii. Loss Reserve Development: The Staff explained that if loss development tables do not provide a full picture of the activity in a segment, for example because the adverse development occurred in accident years greater than 10 years, then further explanation should be provided within MD&A. As previously noted by the Staff, disclosures in MD&A should include discussion of significant changes in estimates, and the underlying causes of changes to loss reserves with descriptions and quantification explaining the underlying causes of the changes at a disaggregated level.

iii. Frequency Methodology: The Staff explained that as required by FASB ASU 2015-09, entities should provide a qualitative description of methodologies used for determining claim frequency information, including whether it is measured by claim event or individual claimant, or disclose the fact that it is impracticable to provide and why.

iv. IBNR Methodology: The Staff noted that disclosures should clearly explain that the amount required by FASB ASC 944-40-50-4D (a) includes both incurred-but-not-reported liabilities and expected development on reported claims.

v. Supplementary Information: As explained in BC20 of FASB ASU 2015-09, all years presented in the claims development tables that precede the most recent reporting period should be considered supplementary information, unless an insurer decides to have the entire claims development tables audited. Accordingly, the column with the most recent reporting period and any other amounts that tie to the financial statements (such as the outstanding balance relating to accident years prior to those depicted in the claims development table) should not be labeled as unaudited.

c. Common Comments on Filing Reviews – The Staff discussed miscellaneous comments that had been provided to insurers but not the resolution:

i. Investments:
   1. All categories of investments should be included in the balance sheet total for investments.
   2. Question on why warrants to purchase public company stock were not accounted for as a derivative.
ii. **Income Taxes**: Significant changes in components of the rate reconciliation from the prior year and the deferred tax asset valuation allowance should be explained.

iii. **Sale of business**: Questions on transactions involving the sale of entities combined with ceded reinsurance transactions and understanding realized gains/losses and deferred gains/losses components.

iv. **Segments**:
   1. Questions on why significant non-insurance operating segments were presented as reconciling item only.
   2. Question on aggregation of two operating segments
   3. Net premiums earned should be disclosed by product in the segment footnote.

v. **Accounting Changes**:
   1. Question to support why significant charges to earnings related to the updating of actuarial assumptions constitute a change in estimate versus the correction of an error.
   2. Question on accounting change from “netting” to “gross up” of modco on the balance sheet.

vi. **Loss contingencies**: Disclosure of the accrual for loss contingency relating to litigation, range of the reasonably possible loss, or why it is not estimable, should be explained.

vii. **Dividend limitations**: Dividends available to the parent company should be disclosed.

viii. **Schedules**: Article 7.05 parent only Financial statements are required; Schedule III of Article 7 of Reg S-X (supplementary insurance information) should be reported on a segment basis.

2. **Accounting Standards**: The Expert Panel provided the Staff with an overview and potential impacts to insurance entities, of the following FASB and IASB Accounting Standards:
   a. ASU 2014-09: Revenue from Contracts with Customers
   b. IFRS 9: Financial Instruments
   e. ASU 2017-12: Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities

3. **FASB Project - Targeted Improvements to Long-Duration Contracts**: The Expert Panel provided the Staff with an overview of tentative decisions made to date on the FASB project on targeted improvements to the long-duration contracts in the following areas:
   i. **Traditional & Limited-Pay Contracts**
      1. Updating of Assumptions
      2. Cash Flow Assumptions
      3. Discount Rate Assumptions
   ii. **Universal Life-Type Contracts**
   iii. **Market Risk Benefits**
   iv. **DAC**
   v. **Participating Contracts/Closed Block**
   vi. **Presentation and Disclosure**