Federal Accounting Standards Advisory Board

June 16, 2016

MEMBER ACTIONS REQUESTED:

- Respond to staff questions by June 23
- Prepare to discuss proposed revisions at the June meeting

Memorandum

To: Members of the Board

Robin M. Gilliam

From: Robin M. Gilliam, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subject: **Insurance Programs: Revisions to Proposal[1] – Tab A**

MEETING OBJECTIVE

Decide on revisions based on responses to exposure draft (ED) questions 3 through 8 and paragraph 10-Exclusions, so that the proposed Statement of Federal Financial Accounting Standards (SFFAS) can be finalized in August 2016.

BRIEFING MATERIAL

This memorandum provides staff's analysis and recommendations regarding respondent suggestions and input on recognition, measurement, and disclosure guidance, which is presented in paragraphs 26-70 and paragraph 10-Exclusions of the ED, and the basis for conclusions.

Attachment 1 – ED with changes tracked for the proposed updates related to ED questions 3 through 8 and paragraph 10-Exclusions. Changes that were approved from the April 2016 meeting have already been incorporated for paragraphs 1-25. In addition, the questions for respondents have been removed and other exposure draft language has been updated for the draft Statement.

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of FASAB or its staff. Official positions of FASAB are determined only after extensive due process and deliberations.

BACKGROUND:

FASAB released the insurance programs ED on December 30, 2015, with comments requested by March 29, 2016. FASAB received 18 comment letters during this time. At the April 2016 meeting, staff presented analysis and recommended edits to the definitions and exclusions based on responses to the first two questions in the ED.

The Board approved edits to the definitions of the following terms:

- Insurance Program
- Exclusions
- Incurred But Not Reported
- Insurance Claim
- Insurance Contract
- Cash Surrender Value
- Recoveries

The Board decided that a public hearing was not necessary.

Chairman Showalter requested that the Statement go to ballot at the August 2016 meeting. To meet that deadline, members agreed to review the changes made to the definitions and exclusions prior to the June meeting.

Members approved changes to the definitions and exclusions through email prior to the June meeting.

STAFF ANALYSIS AND RECOMMENDATIONS FOR ED QUESTIONS 3-8 and paragraph 10-Exclusions:

A. Classification of Programs - ED Question #3 and Nonexchange Transaction Insurance Programs – ED Question #5:

Q3. Insurance programs are to be classified in one of the three categories defined in par.15, 22, and 23: Exchange Transaction Insurance Programs other Than Life Insurance, Life Insurance Programs, and Nonexchange Transaction Insurance Programs.

Do you agree or disagree with these categories? Please provide the rationale for your answer.

Q5. New standards were introduced (par. 44–53) for nonexchange transaction insurance programs.

a. Do you agree or disagree that the recognition guidance (par. 45-49) for nonexchange transaction insurance programs is clear and appropriate? Please provide the rationale for your answer.

b. Do you agree or disagree with the disclosures for the nonexchange transaction insurance programs (par. 50-53)? Please provide the rationale for your answer.

After considering the comments, staff noted that the majority of respondents agreed with the proposal for the three categories. However, the following comments requested edits for clarification and ease of implementation for nonexchange transaction insurance programs.

1. NCUA (#15) was concerned with insurance programs that collect both exchange and nonexchange funding and the potential conflict as to which category they belong.

To address this concern, staff recommends adding the following to the:

exchange transaction insurance programs other than life insurance category:

> An insurance program other than life insurance program receiving any exchange revenue should be designated as an exchange transaction insurance program other than life insurance.

nonexchange transaction insurance programs category:

> An insurance program other than life insurance program receiving any exchange revenue should be designated as an exchange transaction insurance program other than life insurance.

Staff recommends the following addition to the basis for conclusions:

> The Board notes that some insurance programs may be funded with both exchange and nonexchange revenue. The Board believes that a program other than life insurance that receives any exchange revenue should be designated as an exchange transaction insurance program other than life insurance.

2. Two respondents (#14 HHS and #18 AGA) requested more detailed information to provide clarity on the nature of nonexchange transaction insurance programs, as well as examples.

To address this concern, staff recommends adding the following to the basis for conclusions:

> Nonexchange transaction insurance programs cover the risk of loss from adverse events through nonexchange transactions such as collection of nonexchange revenue or use of appropriations. For example, some levy:
>
> a. excise taxes which, like other taxes, are determined by the government's power to compel payment and are classified by SFFAS 7, paragraph 243 as nonexchange revenue;
>
> b. surcharges which, like excise taxes, are determined by the government's power to compel mandatory recoupment of the federal share of pay for losses.

3. In addition, HHS recommended that the Board reduce the amount of disclosures required for nonexchange transaction insurance programs.

Staff does not recommend reducing disclosures because the other 17 respondents did not object to the disclosures.

Question 1: Does the Board agree with the recommendation to clarify the exchange transaction and nonexchange transaction categories and add to the basis for conclusions?

B. Recognition and Measurement of Liability for Losses on Remaining Coverage

ED Question #4:

> New standards were introduced (par. 26-43) for exchange transaction insurance programs other than life insurance. These programs will be required to recognize a liability for losses on remaining coverage. The liability for losses on remaining coverage has been separated from the liability for unpaid claims to address the uncertain nature of losses on contracts open beyond the end of the reporting

period. Insurance programs must first use the expected cash flow model to estimate these future losses. However, there are various methods to estimate cash flows and probabilities. To the extent that a method explicitly or implicitly incorporates the characteristics of expected cash flow, then its use is consistent with this Statement. One member expressed concern in that expected cash flow may be too limiting to allow other methods currently in use to continue to be used for estimating future cash flow in. (See Basis for Conclusion par. A17):

a. Do you agree or disagree that the recognition guidance for exchange transaction insurance programs other than life insurance (par. 27-39) is clear and appropriate? Please provide the rationale for your answer.

b. Would the expected cash flow approach (par. 35-37) prevent use of any methods you believe should be used? Please provide the rationale for your answer.

c. Would the measurement standard (par. 35-37) allow the method currently used by your entity to estimate future losses continue to be used? Please provide the rationale for your answer.

d. Do you agree or disagree with the disclosures for the exchange transaction insurance programs other than life insurance (par. 40-43)? Please provide the rationale for your answer.

After considering the comments, staff noted that the majority of respondents agreed with the proposals for question 4.a.-d.

However, some respondents did suggest the following improvements:

I. **Adverse Event, Paragraph 30.a.ii. (1):** One respondent (#3 KPMG) recommended editing paragraph 30.a.ii.(1) to be consistent with the definition of an adverse event.

RECOMMENDED REVISION:

~~A series of events~~ A single-occurring event or a series of events causing loss must be completed by the end of the reporting period to be considered an adverse event of the reporting period.

Question 2: Does the Board agree with the recommended edits to paragraph 30.a.iii.(1) – Adverse Events?

II. **Insurance Portfolios, Paragraphs 30.c.i and 34:** One respondent (#3 KPMG) recommended that the Board define an insurance portfolio within the definitions section of the Statement rather than a footnote (#12) and consistently use the term throughout the Statement.

Therefore, staff recommends the following:

a. Moving the footnote 12 text to the definitions section by adding the text after paragraph 20 of the ED:

Insurance Portfolio–an insurance portfolio is a grouping of insurance programs or arrangements that have some meaningful relationship based on arrangement period/duration, shared risks, management, customers, geographic regions, or other factors.

b. Removing footnote #12

Staff recommends revising the following paragraphs to address KPMG's concerns regarding consistent use of the term insurance portfolio:

30.c.i. If estimated recoveries exceed the related claims for an ~~group of arrangements~~ insurance portfolio then recognition is limited to the amount of the related claims.

34. Estimates should be determined by considering insurance portfolios ~~groups of arrangements~~ rather than individual ~~contract~~ arrangements.

Question 3: Does the Board agree with the recommended edits to paragraphs 30.c.i and 34 – Insurance Portfolios?

III. **Subsequent Events, Paragraph 32:** Two respondents noted that the extended discussion about subsequent events in paragraph 32 appears to be an expansion of the requirements in SFFAS 39 (#11 GWSCPA-FISC) and could imply that the Board

is providing new or alternative guidance on subsequent events for insurance programs (#3 KPMG). KPMG also recommended removing the last sentence in paragraph 35 because it contradicts paragraph 32 of the ED and paragraphs 11 and 12 from SFFAS 39, which require recognition of certain subsequent events.

Staff notes that the Board intended different treatment of subsequent events related to unpaid insurance claims (paragraph 32) versus those related to losses on remaining coverage (par. 35). For losses on remaining coverage, the Board intended to reduce the frequency of updates to estimates arising from events occurring after the reporting period ends.

To clarify how subsequent events should be treated for both the liability for unpaid claims and the liability for losses on remaining coverage, staff recommends that the board simplify the standards:

ED Version:

Paragraph 32 (Unpaid Insurance Claims):

Subsequent events are events or transactions that affect the basic information or required supplementary information (RSI) that occur subsequent to the end of the reporting period but before the financial report is issued.[2] According to SFFAS 39, subsequent events may be recognized or nonrecognized events. Recognized events provide additional evidence with respect to conditions that existed at the end of the reporting period and affect the estimates. Nonrecognized events provide evidence with respect to conditions that did not exist at the end of the reporting period, but arose subsequent to that date. Events or transactions occurring after the reporting period for which no information existed at the balance sheet date should be treated as nonrecognized events and should be considered for disclosure in accordance with SFFAS 39, par. 15.

Paragraph 35 (Losses on Remaining Coverage):

An entity should estimate the amounts to be paid to settle future claims during the remaining open contract period using expected cash flow based on all available information existing at the balance sheet date, including experience with previous trends, and, as appropriate, the views of independent experts. Subsequent events should not be recognized but may be disclosed in accordance with SFFAS 39.

[2] SFFAS 39, *Subsequent Events*, par. 8

Basis for Conclusions

A20. Events or transactions occurring after the balance sheet date but before the financial report is issued are considered subsequent events. A subsequent event may or may not adjust the financial statements, depending on whether it is a recognized or nonrecognized event. SFFAS 39 provides more detailed guidance, including examples of recognized and nonrecognized subsequent events. Examples for a September 30th year end, November 15th financial statement publication date for insurance programs' subsequent events may include:

a. Recognized event: a claim which is settled (transaction) on October 30th for an amount significantly different from the liability recorded for an adverse event that occurred on September 20th would require adjustment to the financial statements.

b. Nonrecognized event: a major disaster that occurs on October 20th would not require an adjustment to the financial statements, but may require disclosure.

RECOMMENDED REVISION:

Paragraph 32. SFFAS 39 guidance applies to subsequent events relating to unpaid insurance claims.

Paragraph 35. Delete the final sentence: ~~Subsequent events should not be recognized but may be disclosed in accordance with SFFAS 39.~~

Add a paragraph immediately following paragraph 35 which states:

SFFAS 39 addresses subsequent events and provides guidance regarding recognized and nonrecognized events. All subsequent events relating to losses on remaining coverage should be classified as nonrecognized events. Nonrecognized events are to be disclosed in accordance with SFFAS 39, paragraph 15.

Staff recommends the following updated basis for conclusions:

Subsequent Events:

A20. Certain respondents requested clarification regarding subsequent events and the application of SFFAS 39. The Board determined that the

treatment of subsequent events should differ for the liability for unpaid insurance claims versus the liability for losses on remaining coverage.

Liability for Unpaid Insurance Claims:

For the liability for unpaid insurance claims, events or transactions occurring after the balance sheet date but before the financial report is issued are considered subsequent events. A subsequent event may or may not adjust the financial statements, depending on whether it is a recognized or nonrecognized event for which SFFAS 39 provides more detailed guidance. Examples of insurance programs' subsequent events for a September 30th year end with a November 15th financial statement publication date may include:

a. Recognized event: a claim which is settled (transaction) on October 30 for an amount significantly different from the liability recorded for an adverse event that occurred on September 20 would require adjustment to the financial statements.

b. Nonrecognized event: a major disaster that occurs on October 20 would not require an adjustment to the financial statements but may require disclosure.

Liability for Losses on Remaining Coverage:

SFFAS 39's definition of "recognized events" should **not be** applied to events after the balance sheet date but before the publication date relating to the liability for losses on remaining coverage; The Board determined that the uncertainty of future events in estimating the liability at the end of the reporting period and the cost of reestimating the liability outweighs the benefits. An insurance program should disclose a material event that occurs between the balance sheet and publication dates in accordance with SFFAS 39.

Question 4: Does the Board agree with the recommended edits for paragraphs 32 and 35 and updated basis for conclusions - Subsequent Events?

IV. Recognition and Measurement, Paragraph 33-37:

The following is a history of the development of the liability for losses on remaining coverage measurement and recognition standards:

October - December 2014

The Board approved separating the liability now required by SFFAS 5 into two components: 1) a liability for unpaid claims, and 2) a liability for premium deficiency.

The Board but did not agree with the term “premium deficiency,” since this related to the commercial industry’s tracking of solvency for regulated insurance companies. Therefore, the Board accepted the name of liability for losses on remaining coverage to provide a clearer representation for estimating losses on contracts that are still open at the end of the reporting year for their remaining coverage.

February 2015:

The amount of the liability for losses on remaining coverage is the excess of the estimated settlement amount for future claims incurred during the remaining open arrangement period less the unearned premium at the end of the reporting period.

The Board decided to move away from the current SFFAS 5 standards for contingent liabilities to estimate the settlement amount for future claims because those standards allow for either an estimate of “zero” if management believed that the cash flows are not estimable, or, a range of amounts which allows management to pick the mid-point amount.

Therefore, the SFFAS 5 contingent liability language of “probable” and range options was removed. The Board decided to focus the recognition and measurement standards instead on expected cash flows that will look to past transactions and historical trends and assign probabilities accordingly.

April – October 2015:

Some members thought that using only expected cash flow was too confining and wanted to provide more flexibility by adding another option, such as a single most-likely amount. To accomplish this, the Board modeled the wording for drafting these standards after the FASB proposed revenue standards (606-10-32-8):

> ***FASB 606-10-32-8:*** *An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled: [ASU 2014-09, paragraph 5]]*
>
> *a. The expected value—the expected value is the sum of probability- weighted amounts in a range of possible consideration*

amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

b. The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (that is, the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

The Board did extensive research with the task force and learned that while the insurance programs use probability models to estimate their future losses, no program used the traditional expected cash flow or a single-most likely amount; that each program's method was distinct to accommodate their unique risk factors.

The Board spent a significant amount of time trying to determine whether expected cash flow or most-likely amount should be the first method of use. After much deliberation, the Board agreed that expected cash flow should be the first approach an agency should consider for estimating future losses and then a single most-likely amount may be considered. However, there was still concern about how to clearly allow use of other expected cash flow type methods that reporting entities were actually using.

To provide flexibility and remove any extra reporting burden, the Board decided not to provide examples of expected cash flow models being used, but instead provided a general reference to any method that explicitly or implicitly incorporates characteristics of expected cash flow.

The Board agreed that if using an expected cash flow method was not practical (can actually be achieved) and appropriate (right for the purpose), then an entity may estimate a single most-likely amount.

Ed Version:

Definition:

16. **Expected Cash Flow**—"expected cash flow" (also known as expected value (EV) in some accounting literature) refers to the sum of probability weighted amounts in a range of possible estimated amounts.

Standards:

33. The liability for losses on remaining coverage as of the end of the reporting period represents the estimated amounts to be paid to settle future claims

(including claim adjustment expenses) for the remaining open arrangement period less the sum of both related unearned premiums as of the end of the reporting period and future premiums.

34. Estimates should be determined by considering groups of arrangements rather than individual arrangements according to similar characteristics including arrangement duration.

35. An entity should estimate the amounts to be paid to settle future claims during the remaining open arrangement period using expected cash flow based on all available information existing at the balance sheet date, including experience with previous trends, and, as appropriate, the views of independent experts. Subsequent events should not be recognized but may be disclosed in accordance with SFFAS 39.

36. There are various methods to estimate cash flows and probabilities. To the extent that a method explicitly or implicitly incorporates the characteristics of expected cash flow, then its use is consistent with this Statement.

37. If using an expected cash flow method is not practical and appropriate, then an entity may estimate a single most-likely amount to be paid to settle future claims during the remaining open arrangement period.

Four respondents had the following concerns with the proposed standards in paragraphs 35-37:

1. KPMG (#3) recommended that the Board remove paragraph 36, concerned that such broad language may present an audit challenge.

2. KPMG (#3), GWSCPA-FISC (#11), and AGA (#18) recommended that the Board replace or remove the phases “not practical and appropriate” and “single most-likely amount” in paragraph 37, concerned that these phrases were not precise enough to provide for consistent implementation by reporting entities and to determine whether an expected cash flow method was not appropriate.

3. GAO (#12) was concerned that to first use the expected cash flow method is an approach that is too limited and may inappropriately exclude cash flows calculated under other methods that may better reflect estimated cash flows. GAO is also concerned that use of a specific method for estimating cash flows is more confining than other measurement methods in FASAB standards. GAO believes that the flexibility allowed with regard to measurement options for liabilities within the FASAB standards should be consistent.

4. However, GWSCPA-FISC (#11) supports the inclusion of paragraph 36, which allows for reporting entities to choose from the expected cash flows method or from a variety of other methods that approximate the expected cash flows method. GWSCPA-FISC notes that the latitude provided by the Board in paragraph 36 adequately addresses any limitation concerns.

In addition, two insurance programs—represented by task force members—responded as follows:

5. USDA-RMA (#2) noted that paragraphs 36 and 37 give some leeway on other methods and would allow it to continue to use its current methodology for predicting losses.

6. NCUA (#15) commented that the expected cash flow approach proposed in paragraphs 35-37 should not hinder NCUA's current approach to the estimation of its current or future credit union losses. For example, the Share Insurance Fund uses an internal econometric model that applies estimated failure and loss rates and takes into account the historical loss history, insuree risk ratings, insuree financial ratios, and other conditions.

Per the responses received, 77% of respondents support the flexibility allowed within paragraphs 35-37.

Staff presents two options. Option A and Option B.

Option A: In response to three respondents' [KPMG (#3), GWSCPA-FISC (#11), and AGA (#18)] concerns, the proposed standards have been updated. This update would still allow management judgement in method selection, and provide for an estimate of a most-likely amount by choosing an actuarial method that focused on only two possible outcomes.

Option A also replaces the last line of paragraph 35 with a new paragraph per the Subsequent Events discussion above in Section B-III, Question 4.

33. The liability for losses on remaining coverage as of the end of the reporting period represents the estimated amounts to be paid to settle future claims (including claim adjustment expenses) for the remaining open arrangement period less the sum of both related unearned premiums as of the end of the reporting period and future premiums.

34. Estimates should be determined by considering insurance portfolios rather than individual contracts.[3]

35. The liability should be estimated using methods designed to address uncertainties concerning future events.

36. The objective of such methods is to estimate expected cash flow. While there are various ways to determine expected cash flow, methods using Actuarial Standards of Practice[4] would generally be appropriate.

37. Management should select a method based on the risk inherent in the insurance portfolio, sensitivity to external factors, and the availability of information. All available information existing at the balance sheet date should be considered, including:

    a. historical experience with trends,

    b. assumptions about future events,

    c. risk factors,

    d. uncertainties about possible variations in the amount or timing of the potential settlement of claims, and,

    e. as appropriate, data, projections, and supporting analysis supplied by independent expert(s).

New paragraph # - SFFAS 39 addresses subsequent events and provides guidance regarding recognized and nonrecognized events. All subsequent events relating to losses on remaining coverage should be classified as nonrecognized events. Nonrecognized events are to be disclosed in accordance with SFFAS 39, paragraph 15.[5]

Option B: To address GAO's concerns these measurement standards should be consistent with others found in FASAB for estimating liabilities, Mr. Dacey presented the following option to be discussed at the Board meeting—a new paragraph 35—and the new paragraph for subsequent events which was

[3] Paragraph 34 already includes updates from Section B-II, Question 3.
[4] http://www.actuarialstandardsboard.org/standards-of-practice/

[5] See Section B-III, Question 4.

discussed in Section B-III, Question 4. Mr. Dacey believes that requiring a concept of "reasonable estimate" instead of "expected cash flow" will provide flexibility and be consistent with other standards such as:

- SFFAS 1, *Accounting for Selected Assets and Liabilities*, page 10:

Recognition of receivables

41. A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made…

- SFFAS 4, Managerial Cost Accounting Standards and Concepts, page 32

109. The receiving entity should recognize in its accounting records the full cost of the goods or services it receives as an expense or, if appropriate, as an asset (such as work-in-process inventory). The information on costs of non-reimbursed or under-reimbursed goods or services should be available from the providing entity. However, if such cost information is not provided, or is partially provided, a reasonable estimate may be used by the receiving entity. The estimate should be of the cost of the goods or services received (the estimate may be **based on the market value** of the goods or services received if an estimate of the cost cannot be made).

- SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, page 11:

Reasonable Estimates paragraph 35:

The entity's estimates should reflect its judgment about the outcome of events based on past experience and expectations about the future. Estimates should reflect what is reasonable to assume under the circumstances. The entity's own assumptions about future cash flows may be used…

Mr. Dacey's recommendation:

33. The liability for losses on remaining coverage as of the end of the reporting period represents the estimated amounts to be paid to settle future claims (including claim adjustment expenses) for the remaining open arrangement period less the sum of both related unearned premiums as of the end of the reporting period and future premiums.

34. Estimates should be determined by considering insurance portfolios rather than individual contracts.[6]

35. An entity should estimate the amounts to be paid to settle future claims during the remaining open arrangement period using a reasonable estimate of anticipated cash flows. The estimate should be based on all available information existing at the balance sheet date, including historical experience with trends, and, as appropriate, the views of independent experts, and should consider the likelihood and severity of such future claims.

    New paragraph # - SFFAS 39 addresses subsequent events and provides guidance regarding recognized and nonrecognized events. All subsequent events relating to losses on remaining coverage should be classified as nonrecognized events. Nonrecognized events are to be disclosed in accordance with SFFAS 39, paragraph 15.[7]

Please note that staff has the following concerns with Option B that the Board should consider:

1) The expected cash flow definition would be removed with this option.
2) There are no market values that can be used to assess the reasonableness of estimates.
3) The auditor respondents were concerned with allowing too much flexibility.
    - Option A improves the explanation of expected cash flow while still allowing management's judgement.
    - Option B provides more flexibility.
4) Option B is a technical change that suggests a need to reexpose the proposed standards.

[6] Paragraph 34 already includes updates from Section B-II, Question 3.
[7] Paragraph 34 already includes updates from Section B-III, Question 4.

Question 5: Does the Board prefer Option A or Option B?

V. **Claims Expense, Paragraph 39:**

One respondent (#3 KPMG) suggested that **paragraph 31** be consistent with the wording in **paragraph 39**.

RECOMMENDED REVISION:

31. Adjustments to the liability for unpaid insurance claims, other than those resulting from payments made to liquidate existing liability balances, should be recognized as a component of claims expense.

39. Adjustments to the liability for losses on remaining coverage should be recognized **as a component** of claims expense.

Question 6: Does the Board agree with the recommended edit for paragraph 31 – Claims Expense?

VI. **Introduction to Disclosures, Paragraphs 40-42:**

One respondent (#3 KPMG) noted paragraphs 40 and 41 are intended to provide guidance for selecting portfolios and/or contracts to be subject to the disclosures in paragraph 42. However, the linkage to paragraph 42 is not clear.

To link the directions from paragraphs 40-41 to paragraph 42, staff recommends the following revision to paragraph 42:

42. A narrative discussion should be provided to include the following information for each material insurance portfolio, and/or in aggregate for all remaining insurance portfolios, and/or individual insurance contracts:

Question 7: Does the Board agree with the recommended edits for paragraph 42 – Introduction to Disclosures?

VII. **Presenting Disclosure Information, Paragraph 42.a.-h.:**

One respondent (KPMG #3) recommended that the Board consider whether a reporting entity should disclose certain required information in paragraphs 42.a.-h. in a table or chart, rather than in a narrative discussion.

To address this concern, staff recommends the following addition to the basis for conclusions:

One respondent questioned whether information should be presented in a table or chart instead of a narrative. The Board determined that a narrative discussion for the disclosures would allow management to provide the information necessary to explain the specifics of its insurance programs. Management may present additional information in charts or tables as appropriate.

Question 8: Does the Board agree with the addition to the basis for conclusions for paragraph 42.a.–h. – Including a Table or Chart?

VIII. **Disclosures and Gross Costs, Paragraph 42.b.:**

One respondent (KPMG #3) recommended that the Board clarify whether the gross cost and appropriations used balances include federal employees' payroll and related expenses for investigating, settling, and/or adjusting claims during the reporting period.

Staff notes that reporting entities are required to state their gross costs on the Statement of Net Costs. According to the U.S. Standard General Ledger, payroll and related expenses are contained within operating expenses/program costs, which are included in gross costs.

In order to clarify this disclosure, staff recommends the following:

ED Version of 42.b.

The gross cost of insurance programs and related premiums, appropriations used, and borrowing during the period, as well as the ability to repay borrowing.

RECOMMENDED REVISION:

42. A narrative discussion should be provided to include the following information:

b. gross costs, premiums collected, appropriations used, and borrowing needed during the reporting period, as well as the ability to repay borrowing.

Addition to the basis for conclusions:

The Board believes that requiring disclosure of gross costs, premiums collected, appropriations used, borrowing needed during the reporting period, as well as the ability to repay the borrowing should provide a holistic picture of an insurance program's performance. One respondent inquired if federal employee payroll and related expenses are included in disclosing gross costs. The Board recommends that management include all expenses that are captured in its "gross costs" line on the Statement of Net Cost for this disclosure.

Question 9: Does the Board agree with the recommended revision and addition to the basis for conclusions for paragraph 42.b – Gross Costs?

IX. Disclosures and Investing Activities, Paragraph 42.c.:

One respondent (KPMG #3) recommended that the Board provide additional guidance about the meaning of the term "**investing activities**," noting that the term is too broad.

To address this concern, staff recommends the following revision:

42.c: Investing activities, such as buying treasury securities.

Question 10: Does the Board agree with the recommended edit to 42.c. and the addition to the basis for conclusions - Investing Activities?

X. **Disclosures: Uncertainty & Shared Risks - Paragraph 42.f:**

There were a number of respondents concerned with how to disclose low probability, high impact adverse events due to the magnitude and nature of uncertainty. Two respondents also recommended the following for paragraph 42.f: OPIC (#9) requested additional guidance in situations where the government shares risks with a third party, and KPMG (#3) recommended that the Board replace "future costs" with "future claims." KPMG (#3) also requested additional guidance about the meaning of the term "trend information."

To address these concerns, staff recommends the following:

ED Version:

Paragraph 42.f:

The nature and magnitude of uncertainty in calculating the liability for losses on remaining coverage, including the basis and methods, trend information including the amounts of liability for losses on remaining coverage during the reporting period(s), and risk assumptions and factors used to estimate the amounts to be paid to settle future costs.

Basis for Conclusions:

A21. d. The Board learned from the task force that there are low probability, high impact adverse events that, if they occur, can cause material financial losses. The following are examples of hard to predict adverse events that cause substantial loss: a "Katrina" type of hurricane or political uprising in a country that completely disrupts American businesses. Therefore the Board requested that adverse events causing a material change in amounts for the reporting period be disclosed.

RECOMMENDED REVISION:

42. A narrative discussion should be provided to include the following information

f. The nature and magnitude of uncertainty used to measure and estimate the amounts to be paid to settle future claims, including:

i. the basis and estimation method;

ii. risk assumptions and factors;

iii. how much risk, if any, is shared by third parties; and

iv. what trend information, if any, was collected to determine a pattern of claims paid, including how many years were reviewed for collected data.

Staff recommendation for updated basis for conclusions:

Some respondents were concerned about how to disclose the uncertainty of adverse events, including those that are low probability, high impact (very rare, but upon occurrence causes extreme loss). The Board understands that uncertainty is subjective to each insurance program in relation to the risks it insures which may cause extreme loss that is hard to estimate. Some programs may also encounter uncertainty in relation to a multitude of events that must occur over time and often do not map to the financial statement schedule before loss can be determined.

The following are examples of hard to predict adverse events that may cause substantial losses: a “Katrina” type of hurricane, a political uprising in a country that completely disrupts American businesses or an unusual detrimental weather pattern combined with volatile commodity pricing..

Due to this uncertainty in magnitude and timing, the Board believes that the disclosure about estimating uncertainty allows management to discuss its particular constraints in determining the liability for losses on remaining coverage.

Question 11: Does the Board agree with the recommended edits to 42.f. and the addition to the basis for conclusions – Uncertainty & Shared Risks?

XI. **Disclosures and Insurance In-Force, Paragraph 42.g:**

One respondent (USDA-RMA #2) requested clarification on insurance in-force in paragraph 42.g.

As a result, staff recommends the following:

ED Version of paragraph 42.g:

> The amount of coverage provided through insurance in-force at the end of the reporting period which represents the maximum risk exposure for the remaining arrangement period. An explanation should be included that avoids the misleading inference that there is more than a remote likelihood that claims equal to the entire insurance in-force amount will be filed at the same time.

RECOMMENDED REVISION

42. A narrative discussion should be provided to include the following information:

> 42.g. The total amount of coverage provided through insurance in-force as of the end of the reporting period. Reporting entities should include an explanation about the insurance in-force amount that avoids the misleading inference that there is more than a remote likelihood that claims equal to this maximum risk exposure will be paid at the same time.

Staff recommends the following addition to the basis for conclusions:

> The Board believes that disclosing the balance of insurance in-force as of the end of the reporting period will provide useful information as to the maximum risk exposure to the program. However, management should ensure readers that the likelihood of payment in full of the total insurance in-force at one time is very unlikely.

Question 12: Does the Board agree with the recommended edits to paragraph 42.g. and the addition to the basis for conclusions - Insurance In-Force?

XII. **Disclosures and Claims Adjustment Expenses, Paragraph 43:**

One respondent (KPMG #3) recommended including claim adjustment expenses in paragraph 43. Another respondent (USDA, RMA-CFO #2) recommended that paragraph 43 also include the liability for losses on remaining coverage.

Staff agrees and recommends the following revision:

43. Information for changes in the liability balance for unpaid insurance claims should be provided as follows:

a. Beginning balance
b. Incurred claims
c. Claim adjustment expenses
d. Payments to settle claims
e. Recoveries and other adjustments
f. Ending balance

Question 13: Does the Board agree with the recommended edit to paragraph 43 – Claims Adjustment Expense?

C. Life Insurance Programs – ED Question #6:

Q6. New standards were introduced (par. 54–68) for life insurance programs.

a. Do you agree or disagree that the recognition guidance (par. 55-64) for life insurance programs is clear and appropriate? Please provide the rationale for your answer.

b. Do you agree or disagree with the disclosures for the life insurance programs (par. 65-68)? Please provide the rationale for your answer.

After considering the comments, staff noted that the majority of respondents agreed with the proposals for question 6.a.-b. However, one respondent (HHS #14) believes that the required disclosures for life insurance programs should be reduced.

Staff does not recommend reducing disclosures because the other 17 respondents did not object to the disclosures.

Question 14: Does the Board agree that no updates are necessary for life insurance programs?

D. Consolidated Financial Report of the U.S. Government – ED Question #7:

Q7. New disclosures were introduced (paragraph 69) for the consolidated financial report of the U.S. Government.

Do you agree or disagree with the disclosures applicable to the consolidated financial report of the U.S. Government (paragraph 69)?

After considering the comments, staff noted that the majority of respondents agreed with the proposals for question 7. However, one respondent USDA-RMA (#2) requested the same clarification on insurance in-force for paragraph 69.e. as it did for paragraph 49.g.

Staff has adjusted paragraph 69.e. for consistency with changes made to paragraph 49.g. **Please note** that approval of changes to 49.g. (Section B-XI, Question 12) provides approval for this change:

ED Version of paragraph 69.e:

> The amount of coverage provided through insurance in-force at the end of the reporting period which represents the maximum risk exposure for the remaining arrangement period. An explanation should be included that avoids the misleading inference that there is more than a remote likelihood that claims equal to the entire insurance in-force amount will be filed at the same time.

RECOMMENDED REVISION

69. The consolidated financial report of the U.S. Government should disclose the following information…

e. The total amount of coverage provided through insurance in-force as of the end of the reporting period. Include an explanation about the insurance in-force amount that avoids the misleading inference that there is more than a remote likelihood that claims equal to this maximum risk exposure will be paid at the same time.

E. Effective Date – ED Question # 15:

Q8. The Board proposes that the requirements of this Statement are effective for reporting periods beginning after September 30, 2017.

Do you agree or disagree? Please provide the rationale for your answer.

After considering the comments, staff noted that the majority of respondents agreed with the proposal for question 8. However, two respondents (PBGC #6 and DOL-CFO #10) recommended September 30, 2018, as the implementation date.

DOL-CFO does not believe that early implementation should be permitted. Another respondent (USDA-RMA #2) asked the Board if early adoption would be permitted and requested information on how comparative statements should be handled. For example, DOL-CFO asked if this is a change in estimate or accounting policy and whether the previous year should be recalculated with the new standard or handled prospectively.

Per SSFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles,* Amend*ment of SFFAS 7, Accounting for Revenue and Other Financing Sources*:

Changes in Accounting Principles

12. A change in accounting principle is a change from one generally accepted accounting principle to another one that can be justified as preferable. For the purposes of this standard, changes in accounting principles also include those occasioned by the adoption of new federal financial accounting standards.

13. Unless otherwise specified in the transition instructions section of a new FASAB standard, for all changes in accounting principles that would have resulted in a change to prior period financial statements:

(a) The cumulative effect of the change on prior periods should be reported as a “change in accounting principle.” The adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made.

(b) Prior period financial statements presented for comparative purposes should be presented as previously reported; and

(c) The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure.

Because this is a change in accounting principle, and due to the time necessary to ballot and achieve sponsor approval, staff recommends changing the implementation date to September 30, 2018, with no early implementation and no prior period restatement.

Question 15: Does the Board agree with the recommendation to change the effective date to September 30, 2018?

F. Exclusions - Entitlement Programs, paragraph 10.d & Basis for Conclusions:

A number of respondents requested clarification on exclusions. The Board did not make any changes to the exclusions during the April meeting, but approved a discussion in the basis for conclusions. While staff was drafting the exclusion discussion for the basis for conclusions it became clear that entitlement programs is a very muddy and broad category for exclusion because there is no set definition. For example:

- OMB notes: Entitlement refers to a program in which the Federal Government is legally obligated to make payments or pro-vide aid to any person who, or State or local government that, meets the legal criteria for eligibility. Examples include Social Security, Medicare, Medicaid, and Food Stamps.

- While the FASAB definition is: Entitlement Program—is a program in which the federal government becomes automatically obligated to provide benefits to members of a specific group who meet the requirements established by law.

Staff is also concerned with the overlap in the direct spending laws for entitlement and insurance programs which may provide a loophole for certain insurance programs to proclaim exclusion from this Statement. For example, the following paragraph from *FY 2017 President's Budget, Analytical Perspectives*, page 370, mentions entitlement programs and an insurance program in explaining direct spending and receipts.

> *Direct spending and receipts*.—Direct spending includes the major entitlement programs, such as Social Security, Medicare, Medicaid, Federal employee retirement, unemployment compensation, and the Supplemental Nutrition Assistance Program (SNAP). It also includes such programs as deposit insurance and farm price and income supports, where the Government is legally obligated to make payments under certain conditions. Taxes and other receipts are like direct spending in that they involve ongoing activities that generally operate under permanent or long-standing authority, and the underlying statutes generally specify the tax rates or benefit levels that must be collected or paid, and who must pay or who is eligible to receive benefits.

I. Therefore, staff recommends removing entitlement programs as an exclusion from these proposed standards.

II. Staff recommends the following to be added to the basis for conclusions for exclusions:

A number of respondents requested clarification on what activities were excluded from this Statement. In particular, these respondents requested that the Board provide context to explain the exclusions in this proposed standard.

One respondent requested that the Board expand upon the exclusion of entitlement programs in relation to programs that perform like entitlement programs. The Board decided to remove entitlement programs as excluded because this is a very broad category of programs with no set definition. In addition, there is overlap in the direct spending laws for entitlement and insurance programs which may provide a loophole for certain insurance programs to proclaim exclusion from this Statement.

One respondent recommended including fiduciary funds, workers' compensation programs, and programs established to pay claims on adverse events that occurred in the past. The Board amended the wording of certain exclusions to aid in assessing the programs and activities specifically identified by respondents.

Each of the activities and programs excluded involve risk and, therefore, share a characteristic of insurance programs. The Board believes judgment will be required

in applying the exclusions and that providing context may aid in making such judgments. Therefore, the rationale for each exclusion is presented below:

a. Programs that administer **direct loans and loan guarantees** are excluded because standards for these programs are provided in SFFAS 2, Accounting for Direct Loans and Loan Guarantees.

b. Programs that qualify as **social insurance** are excluded because standards for these programs are provided in SFFAS 17, Accounting for Social Insurance (including unemployment insurance).

c. Programs authorized to engage in disaster relief activities are excluded because they do not fit the definition of an insurance program. While benefits are based on losses from adverse events, coverage is available broadly to the population and benefits may not be as clearly defined as in insurance programs. These aspects make it more challenging to apply the recognition and measurement provisions of this Statement. Disaster relief activities will be addressed in a later phase of risk assumed.

d. Programs that assume the **risk of loss arising from federal government operations; worker's or occupational illness** compensation programs; programs that **pay claims through an administrative or judicial role** for individuals or organizations who claim they have been harmed by a federal agency; and programs that **indemnify contractors**, arrangement partners, and other third parties for loss or damages incurred while or caused by work performed for a federal agency are excluded. The Board updated these exclusions by removing a reference to self-insurance and missions because these terms were unclear to respondents. The Board determined that the cost incurred for such activities and programs are part of the full cost of doing business. For example, a program with fleet vehicles that pays for damage from accidents out of funds such as, operation and maintenance would include such costs in the overall program cost.

Question 16: Does the Board agree with removing entitlement programs as an exclusion and to add this basis for conclusions?

QUESTIONS FOR THE BOARD:

Question 1: Does the Board agree with the recommendation to clarify the exchange transaction and nonexchange transaction categories and add to the basis for conclusions?

Question 2: Does the Board agree with the recommended edits to paragraph 30.a.iii.(1) – Adverse Events?

Question 3: Does the Board agree with the recommended edits to paragraphs 30.c.i and 34 – Insurance Portfolios?

Question 4: Does the Board agree with the recommended edits for paragraphs 32 and 35 and updated basis for conclusions - Subsequent Events?

Question 5: Does the Board prefer Option A or Option B?

Question 6: Does the Board agree with the recommended edit for paragraph 31 – Claims Expense?

Question 7: Does the Board agree with the recommended edits for paragraph 42 – Introduction to Disclosures?

Question 8: Does the Board agree with the addition to the basis for conclusions for paragraph 42.a.–h. – Including a Table or Chart?

Question 9: Does the Board agree with the recommended revision and addition to the basis for conclusions for paragraph 42.b – Gross Costs?

Question 10: Does the Board agree with the recommended edit to 42.c. and the addition to the basis for conclusions - Investing Activities?

Question 11: Does the Board agree with the recommended edits to 42.f. and the addition to the basis for conclusions – Uncertainty & Shared Risks?

Question 12: Does the Board agree with the recommended edits to paragraph 42.g. and the addition to the basis for conclusions - Insurance In-Force?

Question 13: Does the Board agree with the recommended edit to paragraph 43 – Claims Adjustment Expense?

Question 14: Does the Board agree that no updates are necessary for life insurance programs?

Question 15: Does the Board agree with the recommendation to change the effective date to September 30, 2018?

Question 16: Does the Board agree with removing entitlement programs as exclusion and to add this basis for conclusions?

NEXT STEPS

- Board to approve any edits through emails after June 2016 meeting.
- Present SFFAS for ballot at August 2016 meeting.

MEMBER FEEDBACK

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help me to prepare answers to your questions in order to make the meeting more productive. You can contact me by telephone at

202-512-7356 or by e-mail at gilliamr@fasab.gov with a cc to paynew@fasab.gov.

TAB A – June 2016

ATTACHMENT 1

INSURANCE PROGRAMS

EXPOSURE DRAFT --> SFFAS

This attachment presents the Insurance Programs ED – issued December 30, 2015, with:

- tracked changes for the proposed updates related to ED questions 3 through 8 and paragraph 10-Exclusions,
- approved changes from the April 2016 meeting already incorporated, and
- removal of the questions for respondents and other exposure draft language

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Federal Accounting Standards Advisory Board

INSURANCE PROGRAMS

Statement of Federal Financial Accounting Standards XX

Comment [RG1]: Certain changes to convert the ED to a final document have been accepted and are not marked for ease of reading. These changes include removing terms such as exposure draft and proposed throughout the document. And, items such as the comments requested by date, transmittal letter, executive summary, and questions for respondents.

November 30, 2016

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor the FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board," exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on the FASAB's website at: www.fasab.gov.

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Contact us:

Federal Accounting Standards Advisory Board
441 G. Street, NW, Suite 6814
Mailstop 6H19
Washington, DC 20548
Telephone (202)512-7350
Fax (202)512-7366
www.fasab.gov

SUMMARY

This Statement establishes accounting and financial reporting standards for insurance programs. *Insurance programs* are programs that are authorized by law to financially compensate a designated population of beneficiaries by accepting all or part of the risk for losses incurred as a result of an adverse event.

This Statement identifies three categories for reporting purposes: exchange transaction insurance programs other than life insurance, nonexchange transaction insurance programs, and life insurance programs. If a program receives any exchange revenue, it will report in the exchange transaction insurance program other than life insurance category.

This Statement provides guidance for each category as to how and when insurance programs should recognize revenue, expenses, and liabilities. The recognition, measurement, and disclosure guidance provides for concise, meaningful, and transparent information regarding the operating performance of insurance programs.

TABLE OF CONTENTS

INTRODUCTION

PURPOSE

1. This Statement rescinds the section: Insurance and Guarantee Programs in SFFAS 5, *Accounting for Liabilities of The Federal Government, paragraphs 97-121* by providing standards to ensure that insurance programs are adequately defined and report concise, meaningful, and transparent information about the liabilities for exposures to risk of loss from adverse events.

2. This Statement defines *insurance programs* as programs that are authorized by law to financially compensate a designated population of beneficiaries by accepting all or part of the risk for losses incurred as a result of an adverse event.

3. This Statement provides guidance for how and when insurance programs should recognize revenue, expenses, and liabilities according to one of the following three categories: exchange transaction insurance programs other than life insurance, nonexchange transaction insurance programs, or life insurance programs. Reporting as an exchange transaction insurance program or nonexchange transaction insurance program is determined by the type of revenue received as defined by Statement of Federal Financial Accounting Standards (SFFAS) 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting. If an insurance program receives any exchange revenue, then it is classified as an exchange transaction insurance program other than life insurance.

MATERIALITY

4. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

PROPOSED STANDARDS

SCOPE

5. This Statement applies when a reporting entity is presenting general purpose federal financial reports (GPFFRs), including the consolidated financial report of the United States (U.S.) government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

6. This Statement provides general principles that should guide preparers of GPFFRs in accounting for and reporting on revenue, related claims and liabilities, and losses and costs of insurance programs. Items such as revenue classification, direct loans and loan guarantees, borrowing, investing, and/or appropriations that are addressed in this Statement should be reported in accordance with other standards.

7. This Statement rescinds the section: Insurance and Guarantee Programs in SFFAS 5, *Accounting for Liabilities of The Federal Government, paragraphs 97-121.*

8. This Statement establishes three categories of insurance and related guidance: exchange transaction insurance programs other than life insurance, nonexchange transaction insurance programs, and life insurance programs. In addition, there is a section providing government-wide disclosure requirements.

DEFINITIONS

Definitions in paragraphs **9-26** are presented within the standards because they are new terms intended to have a specific meaning when applying the standards.

9. **Insurance Program**—"insurance program" is a general term used to refer to a program that is authorized by law to financially compensate a designated population of beneficiaries by accepting all or part of the risk for losses incurred as a result of an adverse event.

10. The following are excluded from insurance programs:

    a. Programs that administer direct loans and loan guarantees[1]

    b. Programs that qualify as social insurance[2]

    c. Programs authorized to engage in disaster relief activities[3]

    d. Entitlement programs

    e. Programs that assume the risk of loss arising from federal government operations[4]

    f. Programs that pay claims through an administrative or judicial role for individuals or organizations who claim they have been harmed by a federal agency[5]

    g. Programs that indemnify contractors, agreement partners, and other third parties for loss or damages incurred while or caused by work performed for a federal agency,[6]

    h. Worker's or occupational illness compensation programs that compensate current or former employees (or survivors) and certain third parties, for injuries and occupational diseases obtained while working for a federal agency.

11. **Adverse Event**—an "adverse event" may be a single-occurring event or a series of events that cause losses to the beneficiary(ies) as identified in the insurance arrangement.

[1] SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*

[2] SFFAS 17, *Accounting for Social Insurance (*including unemployment insurance)

[3] The Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 100-707), commonly referred to as the Stafford Act, is the act that authorizes and regulates disaster relief programs.

[4] For example, see GAO-05-265R, *Catalogue of Federal Insurance Activities, Enclosure IV: Description of Accounts With Federal Self-Insurance Activity*

[5] An example may include an administrative settlement or tort claim resulting from military events.

[6] These are administrative settlements for transactions with contractors under Federal Acquisition Regulation authorized indemnification clauses, and authorized indemnification clauses within other legally binding arrangements, or first responders within programs that do not have a statutory insurance or guarantee mission.

12. **Cash Surrender Value**—the "cash surrender value" is the sum of money that will be returned to the policyholder on a life insurance policy if the policy is cancelled before its maturity or the insured event (death) occurs.

13. **Claim Adjustment Expenses (CAE)**—"claim adjustment expenses (CAE)" are incremental costs directly attributable to investigating, settling, and/or adjusting claims. An incremental cost is one that can result only when claims have been incurred. CAE include but are not limited to legal and adjuster's fees. CAE may be incurred through work performed by federal employees and/or contractors.

14. **Arrangement Period**—"arrangement period" is the period over which adverse events that occur are covered.

15. **Exchange Transaction Insurance Programs Other Than Life Insurance**—"exchange transaction insurance programs other than life insurance" cover the risk of loss from adverse events, other than death of individuals, involved in exchange transactions with the federal government as defined in SFFAS 7.[7]

16. **Expected Cash Flow**—"expected cash flow" (also known as expected value (EV) in some accounting literature) refers to the sum of probability weighted amounts in a range of possible estimated amounts.

17. **In-Force**—"in-force" refers to arrangements that are unexpired as of a given date.

18. **Incurred But Not Reported (IBNR)**—claims "incurred but not reported (IBNR)" are estimated claims from events that have occurred as of the end of the reporting period but have not yet been reported for settlement.

19. **Insurance Claim**—an "insurance claim" is a formal request for payment for losses as authorized under the insurance arrangement.

20. **Insurance Arrangement (Arrangement)**—an "insurance arrangement (arrangement)" is a general term used for a contract or other agreement between an insurance program and specific parties such as but not limited to: individuals, state, local, or foreign governments, other federal agencies, or businesses. An arrangement may include and/or identify:

    a. the term the insurance arrangement is in-force,

    b. the insurance program's responsibilities,

    c. the risk assumed by the insurance program, such as:

        i. all risk for covered losses,

        ii. partial risk by filling a gap where commercial insurance companies are not able or willing to provide the insurance,

[7] SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*

iii. a timing risk wherein the insurance program provides compensation for losses in anticipation that future funding sources will be sufficient to cover all or part of past benefits paid, or

iv. risks shared with a third party.

d. the adverse event,

e. the insured party(ies) and their premium requirements,

f. the beneficiary(ies) and their responsibilities for filing claims, and/or

g. the financial compensation.

21. **Insurance Portfolio:** an "insurance portfolio" is a grouping of insurance programs or arrangements that have some meaningful relationship based on arrangement period/duration, shared risks, management, customers, geographic regions, or other factors.

~~21.~~22. **Liability for Losses on Remaining Coverage**—the "liability for losses on remaining coverage" is an accrued obligation to beneficiaries attributable to coverage of insured events anticipated to occur after the end of the reporting period through the open arrangement period.

~~22.~~23. **Life Insurance Programs**—"life insurance programs" cover the risk of loss from death of individuals.

~~23.~~24. **Nonexchange Transaction Insurance Programs**— "nonexchange transaction insurance programs" cover the risk of loss from adverse events through nonexchange transactions, as defined in SFFAS 7.

~~24.~~25. **Premiums**— "premiums" is a general term used to refer to exchange revenue[8] billed by insurance programs. Programs may refer to their exchange revenue by various terms including but not limited to premiums, assessments, and/or fees.

~~25.~~26. **Recoveries**—"recoveries" include monies:

a. returned from another agency through an indemnification agreement,

b. returned from a third party or commercial insurance company to repay all or part of a loss originally paid for by the program,

c. recouped from the sale of salvageable parts through acquisition and disposal or salvage of assets, and/or

d. received from adjustments made to previously paid insurance claims.

[8] See SFFAS 7, par. 33, for the exchange revenue definition, and Appendix B: Guidance for the Classification of Transactions, par. 284, for the classification of exchange revenue insurance programs.

EXCHANGE TRANSACTION INSURANCE PROGRAMS OTHER THAN LIFE INSURANCE

~~26.~~27. Exchange transaction insurance programs other than life insurance collect premiums through arrangements to cover the risk of loss from adverse events other than death of individuals.

~~27.~~28. An insurance program other than life insurance program receiving any exchange revenue should be designated as an exchange transaction insurance program other than life insurance.

RECOGNITION AND MEASUREMENT

REVENUE AND LIABILITY FOR UNEARNED PREMIUMS

~~28.~~29. Premiums should be recognized as revenue when earned over the period of the arrangement in proportion to insurance protection provided.

~~29.~~30. A liability for unearned premiums should be recognized for the amount of premiums collected and/or due by the end of the reporting period that have not yet been earned in proportion to the insurance protection to be provided during the remaining arrangement period.

LIABILITY FOR UNPAID INSURANCE CLAIMS

~~30.~~31. A liability for unpaid insurance claims should be recognized for adverse events that occurred before the end of the reporting period. The liability should be initially recorded at the estimated settlement amount and remeasured at the end of each reporting period.

~~31.~~32. The estimated settlement amount includes:

a. outflows to liquidate:

i. claims that have been reported but not paid,

ii. claims incurred but not reported (IBNR),

(1) ~~A series of events~~ A single-occurring event or a series of events causing loss must be completed by the end of the reporting period to be considered an adverse event of the reporting period.[9]

(2) Management should use judgment to determine if an adverse event creates an IBNR prior to the reporting date.

[9] If a series of events causing loss begins prior to the reporting date and additional pending events are required to result in losses, then it is not considered an adverse event and should not be included in the estimated settlement costs for IBNR.

b. related estimated claim adjustment expenses, and

c. estimated inflows from recoveries not realized at the end of the reporting period.

i. If estimated recoveries exceed the related claims for an insurance portfolio ~~group of arrangements~~ then recognition is limited to the amount of the related claims.[10]

ii. Recoveries should be recognized as reductions of claims, rather than as revenue.

~~32.~~33. Adjustments to the liability for unpaid insurance claims, other than those resulting from payments made to liquidate existing liability balances, should be recognized ~~as~~ as a component of claims expense.

~~33.~~34. SFFAS 39 guidance applies to subsequent events relating to unpaid insurance claims. ~~Subsequent events are events or transactions that affect the basic information or required supplementary information (RSI) that occur subsequent to the end of the reporting period but before the financial report is issued.[11] According to SFFAS 39, subsequent events may be recognized or nonrecognized events. Recognized events provide additional evidence with respect to conditions that existed at the end of the reporting period and affect the estimates. Nonrecognized events provide evidence with respect to conditions that did not exist at the end of the reporting period, but arose subsequent to that date. Events or transactions occurring after the reporting period for which no information existed at the balance sheet date should be treated as nonrecognized events and should be considered for disclosure in accordance with SFFAS 39, par. 15.~~

LIABILITY FOR LOSSES ON REMAINING COVERAGE

~~34.~~35. The liability for losses on remaining coverage as of the end of the reporting period represents the estimated amounts to be paid to settle future claims (including claim adjustment expenses) for the remaining open arrangement period less the sum of both related unearned premiums as of the end of the reporting period and future premiums.

~~35.~~36. Estimates should be determined by considering ~~groups of arrangements~~ insurance portfolios rather than individual arrangements ~~according to similar characteristics including arrangement duration.~~

~~36.~~37. ~~An entity should estimate the amounts to be paid to settle future claims during the remaining open arrangement period using expected cash flow based on all available information existing at the balance sheet date, including experience with previous trends, and, as appropriate, the views of independent experts. Subsequent events should not be recognized but may be disclosed in accordance with SFFAS 39.~~

Comment [RG2]: This section will be updated with Option A or B

Comment [RG3]: Add new paragraph on Subsequent events here

[10] Any amount expected to be recovered in excess of the recognized claim, which will result in a gain, should not be recognized until any contingencies relating to the recovery have been resolved because a contingent gain cannot be recognized until realized.

[11] ~~SFFAS 39, *Subsequent Events*, par. 8~~

37.38. There are various methods to estimate cash flows and probabilities. To the extent that a method explicitly or implicitly incorporates the characteristics of expected cash flow, then its use is consistent with this Statement.

38.39. If using an expected cash flow method is not practical and appropriate, then an entity may estimate a single most-likely amount to be paid to settle future claims during the remaining open arrangement period.

39.40. If the effect of the time value of money is significant, for example, when settlement may occur over several years, then the estimated settlement amount should be discounted. (See SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates,* par. 28-32 for guidance on selecting discount rates.)

40.41. Adjustments to the liability for losses on remaining coverage should be recognized as a component of claims expense.

DISCLOSURE REQUIREMENTS

Factors in Determining Disclosures

41.42. Materiality is an overarching consideration in financial reporting for information that should be presented regarding exchange transaction insurance programs other than life insurance. Materiality considers both quantitative and qualitative factors in selecting insurance portfolios,[12] and/or in aggregate for all remaining insurance portfolios, and/or individual insurance arrangements. Acceptable quantitative factors may include whether certain groups of arrangements are accumulating large claim expenses or unpaid claim liability balances. Acceptable qualitative factors may include whether a group of arrangements is of immediate concern to constituents, politically sensitive, and/or controversial.

42.43. Disclosures should be integrated so that concise, meaningful, and transparent information is provided in a comprehensive note regarding the insurance program and related balances, or by providing references to relevant notes elsewhere in the GPFFR, such as the Debt Note to the Financial Statements.

Disclosures Applicable to Component Entity Reports

43.44. A narrative discussion should be provided to include the following information for each material insurance portfolio, and/or in aggregate for all remaining insurance portfolios, and/or individual insurance contracts:

[12] Portfolios are groupings of insurance programs or contracts that have some meaningful relationship. The groupings may be based on contract period/duration, shared risks, management, customers, geographic regions, or other factors.

a. What is insured or guaranteed, for whom, and what other government agencies and/or commercial insurance programs administer or assume risk for any part of the program.

b. Gross costs, premiums collected, appropriations used, and borrowing needed during the reporting period, as well as the ability to repay borrowing.

~~b. The gross cost of insurance programs and related premiums, appropriations used, and borrowing during the period, as well as the ability to repay borrowing.~~

c. Investing activities, such as buying treasury securities.

d. Arrangement duration and renewal characteristics, such as non-cancelable or guaranteed renewals.

e. Premium pricing policies (in accordance with SFFAS 7, par. 46) including risk characteristics used in determining premiums, and any requirements to set premium prices that do not cover the full estimated cost to settle claims.

f. The nature and magnitude of uncertainty to estimate the amounts to be paid to settle future claims, including:

    i. the basis and estimation method;

    ii. risk assumptions and factors;

    iii. how much risk, if any, is shared by third parties; and

    iv. what trend information, if any, was collected to determine a pattern of claims paid, including how many years were reviewed for collected data.

~~g. The nature and magnitude of uncertainty in calculating the liability for losses on remaining coverage, including the basis and methods, trend information including the amounts of liability for losses on remaining coverage during the reporting period(s), and risk assumptions and factors used to estimate the amounts to be paid to settle future costs.~~

g. The total amount of coverage provided through insurance in-force as of the end of the reporting period. Reporting entities should include an explanation about the insurance in-force amount that avoids the misleading inference that there is more than a remote likelihood that claims equal to this maximum risk exposure will be paid at the same time.

~~h. The amount of coverage provided through insurance in-force at the end of the reporting period which represents the maximum risk exposure for the remaining arrangement period. An explanation should be included that avoids the~~

~~misleading inference that there is more than a remote likelihood that claims equal to the entire insurance in-force amount will be filed at the same time.~~

~~i.~~h. Any event(s) that caused a material change in the amounts recognized during the reporting period, such as low probability high impact adverse events, changes in laws, and/or actuarial assumptions.

~~44.~~45. Information for changes in the liability balance for unpaid insurance claims should be provided as follows:

a. Beginning balance

b. Incurred claims

c. Claim adjustment expenses

~~c.~~d. Payments to settle claims

~~d.~~e. Recoveries and other adjustments

~~e.~~f. Ending balance

NONEXCHANGE TRANSACTION INSURANCE PROGRAMS

46. Nonexchange insurance programs collect funds on demand and/or receive appropriations to cover the risk of loss from certain adverse events.

~~45.~~47. An insurance program other than life insurance program receiving any exchange revenue should be designated as an exchange transaction insurance program other than life insurance.

RECOGNITION AND MEASUREMENT

REVENUE

~~46.~~48. Nonexchange transaction insurance programs should apply general revenue recognition standards as found in SFFAS 7.

LIABILITY FOR UNPAID INSURANCE CLAIMS

~~47.~~49. A liability for unpaid insurance claims should be recognized for adverse events that occurred before the end of the reporting period. The liability should be initially recorded at the estimated settlement amount and remeasured at the end of each reporting period.

~~48.~~50. The estimated settlement amount includes:

a. outflows to liquidate:

i. claims that have been reported but not paid,

ii. claims incurred but not reported (IBNR),

(1) A series of events causing loss must be completed by the end of the reporting period to be considered an adverse event of the reporting period.[13]

(2) Management should use judgment to determine if an adverse event creates an IBNR prior to the reporting date.

b. related estimated claim adjustment expenses, and

c. estimated inflows from recoveries not realized at the end of the reporting period.

i. If estimated recoveries exceed the related claims for a specific portfolio then recognition is limited to the amount of the related claims.[14]

ii. Recoveries should be recognized as reductions of claims, rather than as revenue.

~~49.~~51. Adjustments to the liability for unpaid insurance claims, other than those resulting from payments made to liquidate existing liability balances, should be recognized as a component of claims expense.

52. SFFAS 39 guidance applies to subsequent events relating to unpaid insurance claims.

~~Subsequent events are events or transactions that affect the basic information or RSI that occur subsequent to the end of the reporting period but before the financial report is issued.[15] According to SFFAS 39, subsequent events may be recognized or nonrecognized events. Recognized events provide additional evidence with respect to conditions that existed at the end of the reporting period and affect the estimates. Nonrecognized events provide evidence with respect to conditions that did not exist at the end of the reporting period, but arose subsequent to that date. Events or transactions occurring after the reporting period for which no information existed at the balance sheet date should be treated as nonrecognized events and should be considered for disclosure in accordance with SFFAS 39, par.15.~~

DISCLOSURE REQUIREMENTS

Factors in Determining Disclosures

[13] If a series of events causing loss begins prior to the reporting date, and additional pending events are required to result in losses, then it is not considered an adverse event and should not be included in the estimated settlement costs for IBNR.

[14] Any amount expected to be recovered in excess of the recognized claim, which will result in a gain, should not be recognized until any contingencies relating to the recovery have been resolved because a contingent gain cannot be recognized until realized.

~~[15] SFFAS 39, par. 8~~

~~50.~~53. Materiality is an overarching consideration in financial reporting for information that should be presented regarding nonexchange transaction insurance programs. Materiality considers both quantitative and qualitative factors in selecting insurance portfolios, and/or in aggregate for all remaining insurance portfolios, and/or individual insurance contracts. Acceptable quantitative factors may include whether certain groups of arrangements are accumulating large claim expenses or unpaid claim liability balances. Acceptable qualitative factors may include whether a group of arrangements is of immediate concern to constituents, politically sensitive, and/or controversial.

~~51.~~54. Disclosures should be integrated so that concise, meaningful, and transparent information is provided in a comprehensive note regarding the insurance program and related balances, or by providing references to relevant notes elsewhere in the GPFFR but which relate to the insurance program.

Disclosures Applicable to Component Reporting Entities

~~52.~~55. A narrative discussion should be provided to include the following information for each material insurance portfolio, and/or in aggregate for all remaining insurance portfolios, and/or individual insurance contracts:

~~53.~~56. :

a. What is insured or guaranteed, for whom, and what other government agencies and/or commercial insurance programs administer or assume risk for any part of the program.

b. Gross costs, premiums collected, appropriations used, and borrowing needed during the reporting period, as well as the ability to repay borrowing.

~~b.~~c. Investing activities such as buying treasury securities.

~~c.~~d. Any event(s) that caused a material change in the amounts recognized during the reporting period, such as low probability high impact adverse events, changes in laws, and/or actuarial assumptions.

~~54.~~57. Information for changes in the liability balance for unpaid insurance claims should be provided as follows:

a. Beginning balance

b. Incurred claims

c. Claim adjustment expenses

~~c.~~d. Payments to settle claims

~~d.~~e. Recoveries and other adjustments

~~e.~~f. Ending balance

LIFE INSURANCE PROGRAMS

~~55.~~58. Life Insurance Programs collect premiums for life insurance ~~contract~~arrangements to cover the risk of loss from death of individuals.

RECOGNITION AND MEASUREMENT

REVENUE

~~56.~~59. Premiums should be recognized as revenue when due from policyholders.

LIABILITY FOR UNPAID INSURANCE CLAIMS

~~57.~~60. A liability for unpaid insurance claims should be recognized for adverse events that occurred before the end of the reporting period. The liability should be initially recorded at the estimated settlement amount and remeasured at the end of each reporting period.

~~58.~~61. The estimated settlement amount includes:

a. outflows to liquidate:

   i. claims that have been reported but not paid,

   ii. claims incurred but not reported (IBNR),

b. related estimated claim adjustment expenses, and

c. estimated inflows from recoveries, such as monies recovered from improper payments, not realized at the end of the reporting period.

   i. If estimated recoveries exceed the related claims for a group of arrangements then recognition is limited to the amount of the related claims.[16]

   ii. Recoveries should be recognized as reductions of claims, rather than as revenue.

[16] Any amount expected to be recovered in excess of the recognized claim, which will result in a gain, should not be recognized until any contingencies relating to the recovery have been resolved because a contingent gain cannot be recognized until realized.

~~59.~~62. Adjustments to the liability for unpaid insurance claims, other than those resulting from payments made to liquidate existing liability balances, should be recognized as a component of claims expense.

63. SFFAS 39 guidance applies to subsequent events relating to unpaid insurance claims.

LIABILITY FOR FUTURE POLICY BENEFITS

64. The liability for future policy benefits represents the expected present value of future claims to be paid to, or on behalf of, existing policyholders, less the expected present value of future net premiums to be collected from those policyholders.

~~60.~~65. SFFAS 39 addresses subsequent events and provides guidance regarding recognized and nonrecognized events. All subsequent events relating to the liability for future policy benefits should be classified as nonrecognized events. Nonrecognized events are to be disclosed in accordance with SFFAS 39, paragraph 15.

~~61.~~66. Estimates should be determined by considering groups of arrangements rather than individual arrangements according to similar characteristics including arrangement duration.

~~62.~~67. The liability is estimated using appropriate financial and/or actuarial methods that include assumptions, such as estimates of expected investment yield, mortality, morbidity, terminations, and expenses. (See also SFFAS 33)

~~63.~~68. Changes in the liability for future net policy benefit outflows that result from periodic re-estimations would be recognized as expense in the period in which the changes occur.

~~64.~~69. The effects of changes in relevant law or policy would be recognized when those changes occur.

~~SUBSEQUENT EVENTS~~

~~Subsequent events: Events or transactions that affect the basic information or RSI that occur subsequent to the end of the reporting period but before the financial report is issued.[17] According to SFFAS 39, subsequent events may be recognized or nonrecognized events. Recognized events provide additional evidence with respect to conditions that existed at the end of the reporting period and affect the estimates. Nonrecognized events provide evidence with respect to conditions that did not exist at the end of the reporting period, but arose subsequent to that date. Events or transactions occurring after the reporting period for which no information existed at the balance sheet date should be treated as nonrecognized events and should be considered for disclosure in accordance with SFFAS 39, par 15.~~

~~[17] SFFAS 39, par. 8~~

DISCLOSURE REQUIREMENTS

Factors in Determining Disclosures

~~65.~~70. Materiality is an overarching consideration in financial reporting for information that should be presented regarding life insurance programs. Materiality considers both quantitative and qualitative factors in selecting insurance portfolios, and/or in aggregate for all remaining insurance portfolios, and/or individual insurance arrangements. Acceptable quantitative factors may include whether certain groups of arrangements are accumulating large claim expenses or unpaid claim liability balances. Acceptable qualitative factors may include whether a group of arrangements is of immediate concern to constituents, politically sensitive, and/or controversial.

~~66.~~71. Disclosures should be integrated so that concise, meaningful, and transparent information is provided in a comprehensive note regarding the insurance program and related balances, or by providing references to relevant notes elsewhere in the GPFFR but which relate to the insurance program.

Disclosures Applicable to Component Reporting Entities

~~67.~~72. A narrative discussion should be provided to include the following information for each material insurance portfolio, and/or in aggregate for all remaining insurance portfolios, and/or individual insurance contracts:

a. The type of life insurance and specific characteristics of those products, such as when and how benefits are paid, for example, in dividends and/or at death or at a certain age, and what other government agencies and/or commercial insurance programs administer and/or assume risk for any part of the program.

b. Premium pricing policies (in accordance with SFFAS 7, par. 46) including risk characteristics used in determining premiums, and requirements to set premium prices that do not cover the full estimated cost to settle claims.

c. Gross costs, premiums collected, appropriations used, and borrowing needed during the reporting period, as well as the ability to repay borrowing.

d. Investing activities such as buying treasury securities.

~~e.~~ The nature and magnitude of uncertainty to estimate the amounts to be paid to settle future claims, including:

i. the basis and estimation method;

ii. risk assumptions and factors;

iii. how much risk, if any, is shared by third parties; and

iv. what trend information, if any, was collected to determine a pattern of claims paid, including how many years were reviewed for collected data.

~~f.~~e. The total value of life insurance policies issued—insurance in-force—at the end of the reporting period which represents the maximum risk exposure. An explanation should be included that avoids the misleading inference that there is more than a remote likelihood that claims equal to the entire insurance in-force amount will be filed at the same time.

~~g.~~f. The net cash surrender value of policies at the end of the reporting period, including appropriate information to aid in avoiding the misleading inference that there is a more than remote likelihood that 100% of all policies will cancel at the end of the reporting period.

~~h.~~g. Any event(s) that caused a material change in the amounts recognized during the reporting period, such as low probability high impact adverse events, changes in laws, and/or actuarial assumptions

~~68.~~73. Information for changes in the liability balance for unpaid insurance claims should be provided as follows:

a. Beginning balance

b. Incurred claims

c. Claim adjustment expenses

~~c.~~d. Payments to settle claims

~~d.~~e. Recoveries and other adjustments

~~e.~~f. Ending balance

DISCLOSURES APPLICABLE TO THE CONSOLIDATED FINANCIAL REPORT OF THE U.S. GOVERNMENT

~~69.~~74. The consolidated financial report of the U.S. Government should disclose the following information:[18]

a. a broad description of insurance programs,

b. a general reference to relevant component reporting entity reports,[19]

c. the balance for insurance program liabilities,

d. a narrative discussion of programs' ability or inability to repay any borrowing, and

e. the total amount of coverage provided through insurance in-force as of the end of the reporting period. Include an explanation about the insurance in-force amount that avoids the misleading inference that there is more than a remote likelihood that claims equal to this maximum risk exposure will be paid at the same time.

~~e. the amount of insurance in-force at the end of the reporting period which represents the maximum risk exposure. An explanation should be included that avoids the misleading inference that there is more than a remote likelihood that claims equal to the entire insurance in-force amount will be filed at the same time.~~

EFFECTIVE DATE

~~70.~~75. The requirements of this Statement are effective for reporting periods beginning after September 30, ~~2017~~2018.

The provisions of this Statement need not be applied to immaterial items.

[18] Disclosure is "reporting information in notes or narrative regarded as an integral part of the basic financial statement."

[19] The term "component reporting entity" is used to distinguish between the U.S. Federal government and its components. The U.S. Federal government is composed of organizations that manage resources and are responsible for operations. These include major departments and independent agencies, which are generally divided into sub organizations, i.e., smaller organizational units with a wide variety of titles, including bureaus, administrations, agencies, and corporations.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the Statement—not the material in this appendix—should govern the accounting for specific transactions, events or conditions.

PROJECT HISTORY

A1. The Board undertook this project to ensure that the risk assumed through insurance and non-loan guarantee programs is adequately reported in federal financial reports. SFFAS 5, *Accounting for Liabilities of The Federal Government*, provides standards applicable to insurance and guarantee (non-loan) programs (insurance programs). While SFFAS 5 includes a requirement to report risk assumed, the information provided about insurance programs is not comparable or informative. Further review found that it is challenging to determine the financial results and position of insurance programs.

A2. In addition, the Board's conceptual framework now provides a definition of liability and describes measurement attributes that were not available when SFFAS 5 was developed. SFFAC 5, *Definitions of Elements of Accrual-Basis Financial* Statements, defines liability as "a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand." SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording,* defines attributes of elements that may be measured. This proposal seeks to adopt the most current concepts so that the accounting principles for insurance and non-loan guarantee liabilities provide comprehensive guidance for consistent reporting.

A3. Project goals are to:

a. define federal insurance programs and related terms,
b. ensure consistent reporting for all insurance programs implemented by the federal government,
c. address measurement uncertainty regarding estimating losses on open arrangements as of the end of the reporting period,
d. ensure disclosures address uncertainties and risk factors, and
e. provide for reporting on significant risks assumed in order to meet the stewardship and operating performance objectives of federal financial reporting

A4. A task force was formed to assist in developing the proposed standards for insurance and non-loan guarantee programs. Task force members included accounting, budget, and insurance subject matter experts from federal agencies and independent public accounting firms.

A5. The task force met several times over the course of the project, delivered an education session to members, and also exchanged numerous ideas and recommendations electronically. The task force views and recommendations were sought by staff in developing and describing alternatives to present to the Board during the development of these standards. The task force's assistance was essential and its views carefully considered by members during deliberations. The task force played an important role in the research and release of this exposure draft.

~~SCOPE~~

~~A6. This project addresses federal insurance and non-loan guarantee programs that use a variety of funding structures to manage the risk of loss from specific adverse events. The original title for this project was Insurance and Non-Loan Guarantee Programs.~~

~~A7. The term "non-loan guarantee" is currently included in the SFFAS 5 language, so that programs that guarantee settlement of losses for adverse events other than loan defaults are addressed by those standards regardless of the name of the program. However, research by the task force determined that the phrase "non-loan guarantee" is confusing to readers. Because non-loan guarantee programs meeting the new insurance program definition would be covered by this Statement, dropping the phrase "non-loan guarantee" from the title would avoid reader confusion but not otherwise change the scope of the project. Members agreed and renamed the project Insurance Programs.~~

~~A8. The various insurance program funding structures to cover the risk of losses may include collecting premiums to fully fund estimated losses, combining premiums that partially fund estimated losses with appropriations, authorizing borrowing to pay for losses not otherwise covered, or collecting assessments to provide reimbursement for losses in the event that an adverse event occurs. The funding structure does not affect whether a program qualifies as an insurance program but does affect classification.~~

SUMMARY OF OUTREACH EFFORTS AND RESPONSES:

A6. The exposure draft (ED), Insurance Programs, was issued on December 30, 2015, with comments requested by March 30, 2016.

A7. Upon release of the ED, notices and press releases were provided to the FASAB email listserv, the Federal Register, FASAB News, the Journal of Accountancy, Association of Government Accountants Today, the CPA Journal, Government Executive, and the CPA Letter, the CFO Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on exposure drafts in the past (for example, the Greater Washington Society of CPAs, Association of Government Accountants Financial Management Standards Board.)

A8. The broad announcement was followed by direct mailings of the ED to the following relevant congressional committees:

a. House Agriculture Committee
b. House Appropriations Committee:
    i. Subcommittee on Agriculture, Rural Development, Food and Drug
    ii. Administration and Related Agencies
    iii. Subcommittee on Oversight and Government Reform
    iv. Subcommittee on Homeland Security
c. House Budget Committee
d. House Committee on Veterans' Affairs
e. House Committee on Homeland Security - Subcommittee on Emergency Preparedness, Response, and Communications, Majority
f. House Committee on Financial Services
g. Senate Agriculture Committee
h. Senate Appropriations Committee:
    i. Subcommittee on Agriculture, Rural Development, Food and Drug
    ii. Administration and Related Agencies
    iii. Subcommittee on Homeland Security
i. Senate Committee on Banking, Housing, and Urban Affairs -Subcommittee on Securities, Insurance, and Investment
j. Senate Budget Committee
k. Senate Committee on Finance
l. Senate Committee on Health, Education, Labor & Pensions (HELP)
m. Senate Committee on Homeland Security and Governmental Affairs
n. Senate Committee on Veterans' Affairs

A9. Stephen Ellis of Taxpayers for Common Sense also received a copy of the ED.

A10. 18 responses were received from preparers, auditors, professional associations, and citizens. The majority of respondents agreed with proposals for new definitions and exclusions, and the three categories: exchange transaction insurance programs other than life insurance, nonexchange transaction insurance programs, and life insurance programs for reporting insurance programs.

A11. However, the auditors and accounting associations disagreed with the proposals for how to estimate the settlement of future claims for the liability for losses on remaining coverage.

A12. Some respondents also identified certain issues that could be clarified within the Statement or addressed in the basis for conclusions.

A13. The Board did not rely on the number in favor or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered each response and weighed the merits of the points raised. The respondents' comments are summarized below:

KEY AREAS OF IMPROVEMENT

~~A9.~~A14. SFFAS 5 resulted in inconsistent reporting among insurance programs due to the absence of definitions and use of words such as: possible loss, probable future events, measurable, and uncertainty. The Board considered existing concepts and standards for similar circumstances such as loan guarantees to identify options for improvement. The Board also considered task force testimony that insured events are often hard to project due to their high impact yet low probability nature and the lack of available data to predict them. As a result, the Board determined that current reporting could be improved through:

a. definitions of relevant terms,

~~a.~~b. clarity for what programs are excluded

~~b.~~c. guidance for revenue recognition and unearned premiums,

~~c.~~d. consistent recognition of liabilities including future loss estimates, and

~~d.~~e. structured disclosure requirements.

Definitions of Relevant Terms and Excluded Activities

~~A10.~~A15. During the initial phase of the project, the Board determined that definitions of relevant terms would be necessary for consistent reporting. Board staff worked extensively with the task force to develop these definitions. The Board decided to use general terms in order to include all current insurance and future insurance programs in this ~~The~~Statement. The Board determined that the following provided the foundation for the definitions developed for this project.

a. Insurance Program—while most respondents did agree with the definition, programs that were not structured like commercial insurance programs with actual contracts requested clarification. Therefore, the Board defined~~ition for~~ a federal ~~n~~ insurance program ~~identifies the~~by its fundamental nature ~~of these federal programs~~. The substance – and not the name – of a program will determine if it is an insurance program and therefore subject to these standards.

b. Exclusions—A number of respondents requested clarification on what activities were excluded from this Statement. In particular, these respondents requested that the Board provide context to explain the exclusions in this proposed standard.

c. One respondent requested that the Board expand upon the exclusion of entitlement programs in relation to programs that perform like entitlement programs. The Board decided to remove entitlement programs as excluded because this is a very broad category of programs with no set definition. In addition, there is overlap in the direct spending laws for entitlement and insurance programs which may provide a loophole for certain insurance programs to proclaim exclusion from this Statement.

d. One respondent recommended including fiduciary funds, workers' compensation programs, and programs established to pay claims on adverse events that occurred in the past. The Board amended the wording of certain exclusions to aid in assessing the programs and activities specifically identified by respondents.

e. Each of the activities and programs excluded involve risk and, therefore, share a characteristic of insurance programs. The Board believes judgment will be required in applying the exclusions and that providing context may aid in making such judgments. Therefore, the rationale for each exclusion is presented below:

i. Programs that administer **direct loans and loan guarantees** are excluded because standards for these programs are provided in SFFAS 2, *Accounting for Direct Loans and Loan Guarantees.*

ii. Programs that qualify as **social insurance** are excluded because standards for these programs are provided in SFFAS 17, *Accounting for Social Insurance* (including unemployment insurance).

iii. Programs authorized to engage in **disaster relief activities** are excluded because they do not fit the definition of an insurance program. While benefits are based on losses from adverse events, coverage is available broadly to the population and benefits may not be as clearly defined as in insurance programs. These aspects make it more challenging to apply the recognition and measurement provisions of this Statement. Disaster relief activities will be addressed in a later phase of risk assumed.

iv. Programs that assume the **risk of loss arising from federal government operations; worker's or occupational illness** compensation programs; programs that **pay claims through an administrative or judicial role** for individuals or organizations who claim they have been harmed by a federal agency; and programs that **indemnify contractors**, arrangement partners, and other third parties for loss or damages incurred while or caused by work performed for a federal agency are excluded. The Board updated these exclusions by removing a reference to self-insurance and missions because these terms were unclear to respondents. The Board determined that the cost incurred for such activities and programs are part of the full cost of doing business. For example, a program with fleet vehicles that pays for damage from accidents out of funds such as, operation and maintenance would include such costs in the overall program cost.

~~a.~~ f. Adverse Event—each insurance program is responsible to settle losses that result from specific adverse events. The Board learned through an education session with the Federal Crop Insurance Corp (FCIC) that an adverse event may be a single event or a series of events. Therefore, an adverse event has not occurred until all of the events in a series occur.

~~b.~~g. Insurance Arrangement—while most respondents agreed with the term "contract" some respondents noted that they do not have formal contracts and may then be excluded from this Statement. T~~t~~he task force provided information that exchange transaction insurance programs and life insurance programs engage in an explicit agreement or arrangement. The Board decided to change the term from "insurance contract" to "insurance arrangement." The definition of an insurance arrangement includes the elements that ~~these~~ insurance programs ~~may~~ agree upon ~~to in order~~ to provide settlement of losses to beneficiaries.

h. Insurance Portfolios-one respondent requested that the Board define insurance portfolios and refer to that term consistently throughout the Statement. The Board agreed and added a definition for insurance portfolios.

~~c.~~i. Insurance Program Categories—the Board determined that an insurance program will fit into one of three categories. Each category processes different types of transactions that settle losses from specific adverse events. The categories are as follows:

i. Exchange transaction insurance programs other than life insurance cover the risk of loss from adverse events, other than death of individuals, involved in exchange transactions as defined by SFFAS 7.

ii. Nonexchange transaction insurance programs cover the risk of loss from adverse events through nonexchange transactions as defined by SFFAS 7.

iii. Life Insurance Programs cover the risk of loss from death of individuals.

~~d.~~j. A number of respondents requested additional information for better understanding of the exchange and nonexchange transaction categories other than life insurance. In particular, respondents wanted to know (1) how to determine if a program should be classified as a nonexchange transaction insurance program and (2) how to classify a program if it receives both exchange and nonexchange revenue.

i. The Board's intention for the Exchange Transaction Insurance Programs Other than Life Insurance and Nonexchange Transaction Insurance Programs is to define these categories in relation to the revenue standards in SFFAS 7. ~~.~~

~~i.~~ii. Some respondents were confused by the Boards reference to only SFFAS 7 and not SFFAS 5 in defining these categories. The standards found in SSFAS 7 provided more current information than SFFAS 5 which helped the Board determine what type of transactions to include in each of the three insurance program categories. Therefore, the Board determined to only use SFFAS 7 as a foundation for the categories.

iii. This Statement addresses revenue recognition that is unique to each category, but does not reiterate the revenue recognition standards. To address this, the Board added a general statement in the Scope section that refers the preparer to other standards when necessary.

~~ii.~~iv. The Board notes that some insurance programs may be funded with both exchange and nonexchange revenue. The Board believes that a program other than life insurance that receives any exchange revenue should be designated as an exchange transaction insurance program other than life insurance.

v. Nonexchange transaction insurance programs cover the risk of loss from adverse events through nonexchange transactions such as collection of nonexchange revenue or use of appropriations. For example, some levy:

1. excise taxes which, like other taxes, are determined by the government's power to compel payment and are classified by SFFAS 7, paragraph 243 as nonexchange revenue;
2. surcharges which, like excise taxes, are determined by the government's power to compel mandatory recoupment of the federal share of pay for losses.

Revenue Recognition and Liability for Unearned Premiums:

~~A11. The standards found in SSFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, provide information to help the Board determine what type of transactions to include in each of the three insurance program categories. This Statement addresses revenue recognition that is unique to each category, but does not reiterate the revenue recognition standards. To address this, the Board added a general statement in the Scope section that refers the preparer to other standards when necessary.~~

Comment [RG4]: This discussion was moved above in the definition discussion.

~~A12.~~A16. Exchange transaction insurance programs other than life insurance recognize revenue in proportion to the insurance protection to be provided. Any revenue collected but not earned prior to the end of the reporting period is recognized as unearned premiums.

a. The following is an example of revenue that is earned evenly over a 12-month arrangement period because insurance protection is provided evenly during the arrangement period. The premium of $1,200 is collected on July 1st. By September 30th, three months have been covered earning the exchange program $300. The remaining $900 is unearned because the remaining arrangement period is still open into the next fiscal year from October 1st through June 30th. The $900 is recognized separately on the balance sheet as unearned premium.

b. The following is an example of revenue that is earned for three equivalent national rallies scheduled to be held during a 12-month arrangement period. The premium of $1,500 is collected on July 1st. By September 30th, two of the three rallies have occurred, earning the exchange program $1,000. The remaining $500 is unearned because the third rally is not scheduled until December 20th, which is during the

remaining arrangement period from October 1st through June 30th. The $500 is recognized separately on the balance sheet as unearned premium.

~~A13.~~A17. Nonexchange transaction insurance programs do not recognize unearned premiums because they do not earn premiums. The Board believes that insurance programs in this category should apply general revenue recognition standards. Therefore, no specific revenue recognition guidance is provided in this Statement

~~A14.~~A18. Life insurance programs do not recognize unearned premiums. The Board believes that revenue from life insurance arrangements should be recognized when due from policyholders because there is no better basis for determining when revenue is earned. Premiums are due and collected each pay period or on another recurring basis over the entire duration of the arrangement. In addition, the expected present value of future net premiums is deducted from the expected present value of future claims to arrive at the liability for future policy benefits.

Recognition of Liabilities and Measurement of Future Loss Estimates

~~A15.~~A19. Liability for Unpaid Claims is recognized for all categories. Regardless of category, at the end of the reporting period insurance programs might be processing claims for losses due to adverse events that occurred by the end of the reporting period.

a. The amounts due for claims that have been submitted but not paid are included in the liability for unpaid claims.

b. There are also claims incurred but not reported. The amounts for these claims are not known and must be estimated for adverse events that occurred by the end of the reporting period. If an adverse event is a series of events not completed by the end of the reporting period, then the Board believes that these are not IBNR claims and should not be included in the liability for unpaid claims. Nonetheless, for exchange transaction insurance programs other than life insurance, such series would be considered in estimating a liability for losses on remaining coverage.

c. Claims adjustment expenses are costs directly related to settling claims from adverse events that occurred by the end of the reporting period. The Board believes that CAE should be included in the liability for unpaid claims for submitted and IBNR claims in order to recognize the full cost to settle claims.

~~A16.~~A20. ~~Recognition of a liability for losses on remaining coverage is required for exchange transaction insurance programs other than life insurance. Research by the task force determined that a program has a service obligation to pay for any losses caused by adverse events during the entire arrangement period.~~

Comment [RG5]: This section will be updated upon approval by the Board of how to estimate losses on remaining coverage.

~~a. The Board believes that separating the liability for losses on remaining coverage from the liability from the unpaid claims portion will remove~~

confusion created by the SFFAS 5 reference to general standards for contingencies and improves estimation and recognition of losses on remaining coverage.

b. The Board believes that programs should first use expected cash flow (also referred to as expected value in some accounting literature) to estimate the cost to settle claims on remaining coverage. This is an improvement over existing standards that provide for losses to be recognized when they are both probable and measurable.

c. According to the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 7, paragraphs 44-54, the use of probabilities is an essential element of the expected cash flow approach. However, some have questioned whether assigning probabilities to highly subjective estimates implies greater precision than in fact exists. Some also question whether the cost of obtaining additional information to assign probabilities will bring more reliability to the measurement. To address these concerns, FASB allows a variety of pricing tools and methods for developing an expected cash flow estimate.

d. There are a number of tools available to estimate an expected cash flow. Management may identify possible cash flows and assign each a probability consistent with the definition of expected cash flows. For more complex portfolios, more sophisticated tools may be needed to deal with the many variables affecting future claims. For example, the Department of Agriculture's Risk Management Agency oversees crop insurance and relies upon a regression analysis[20] to estimate cash flows. The Department of Homeland Security's Federal Emergency Management Agency oversees flood insurance and relies on a lognormal distribution[21] to estimate cash flows. Such tools can be used to arrive at expected cash flow even though they are not as straight forward as the definition of expected cash flow implies.

e. Existing contingency standards provide guidance regarding estimates of a range of possible outcomes. The Board has not addressed the use of a range of possible outcomes when no outcome within the range is a better estimate than any other outcome. Under the expected cash flow method, the single average – or mid point of the range – is the expected cash flow. Therefore, guidance regarding the range is not necessary.

[20] Regression analysis is a statistical technique used to measure the extent to which a change in one quantity (variable) is accompanied by a change in some other quantity (variable). GAO, Aug 1, 1974-Case Study (CS-5), *Using Regression Analysis To Estimate Costs Published*, page 1.

[21] In statistics the best known distribution is the normal, the familiar bell-shaped curve which is symmetrical about its mean. Certain other distributions stem from the normal. For example… the lognormal distribution…A random variate x is lognormally distributed if the logarithm of x is normally distributed. In short, the distribution of x is itself lognormal when the distribution of log x is normal. A typical lognormal distribution is skewed to the right and has a lower bound such that the probability of x being less than this lower bound is exactly zero. Lester G. Telser, Review of the Lognormal Distribution, Journal of Farm Economics 41. No 1, Feb., 1959, page 161.

~~f. The Board believes that if using an expected cash flow method is not practical and appropriate, then an entity may estimate a single most-likely amount to be paid to settle future claims during the remaining open arrangement period.~~

~~A17.~~A21. ~~A member expressed concern that the requirement to first use expected cash flows discussed in paragraph A16 was too limited and may inappropriately exclude estimates of cash flows calculated under other methods that better reflect estimated cash flows. Specifically, the member believes that the entity should be able to use any method that provides a reasonable estimate of cash flows, based on all available information existing at the balance sheet date, including experience with previous trends, and, as appropriate, the views of independent experts. Also, the member expressed concern that the focus on expected cash flows is narrower than measurement options allowed for other liabilities and that there was not a clear reason expressed for the different treatment in this proposed standard. The Board agreed to add question 4b to seek comments from respondents on the proposed methodology for calculating the liability for losses on remaining coverage.~~

~~A18.~~A22. Recognition of a liability for future policy benefits is required for Life Insurance Programs. Future benefits and premiums are estimated using financial and/or actuarial methods, depending on the portfolio risk characteristics and arrangement duration. These amounts are discounted to the present value in order to recognize the liability for future benefits.

~~A19.~~A23. Estimates for the liability for losses on remaining coverage and future policy benefits are recognized by ~~groups of arrangements~~insurance portfolios with similar characteristics, including arrangement duration. The Board decided not to define "arrangement duration" due to the subjective nature of duration. For example, one insurance program might determine that a 36-month arrangement is short-duration, while another one assigns it to a long-duration group. Recognizing these liabilities by groups of arrangements allows judgment by each insurance program in defining the duration of their arrangements.

Comment [RG6]: Update to portfolio upon approval of new definition

Subsequent Events:

A24. Certain respondents requested clarification regarding subsequent events and the application of SFFAS 39. The Board determined that the treatment of subsequent events should differ for the liability for unpaid insurance claims versus the liability for losses on remaining coverage.

Liability for Unpaid Insurance Claims:

A25. For the liability for unpaid insurance claims, events or transactions occurring after the balance sheet date but before the financial report is issued are considered subsequent events. A subsequent event may or may not adjust the financial statements, depending on whether it is a recognized or nonrecognized event for which SFFAS 39 provides more detailed guidance.

Examples of insurance programs' subsequent events for a September 30th year end with a November 15th financial statement publication date may include:

a. Recognized event: a claim which is settled (transaction) on October 30 for an amount significantly different from the liability recorded for an adverse event that occurred on September 20 would require adjustment to the financial statements.

b. Nonrecognized event: a major disaster that occurs on October 20 would not require an adjustment to the financial statements but may require disclosure.

Liability for Losses on Remaining Coverage:

~~A20.~~A26. SFFAS 39's definition of "recognized events" should **not be** applied to events after the balance sheet date but before the publication date relating to the liability for losses on remaining coverage; The Board determined that the uncertainty of future events in estimating the liability at the end of the reporting period and the cost of reestimating the liability outweighs the benefits. An insurance program should disclose a material event that occurs between the balance sheet and publication dates in accordance with SFFAS 39.

~~A21. Events or transactions occurring after the balance sheet date but before the financial report is issued are considered subsequent events. A subsequent event may or may not adjust the financial statements, depending on whether it is a recognized or nonrecognized event. SFFAS 39 provides more detailed guidance, including examples of recognized and nonrecognized subsequent events. Examples for a September 30th year end, November 15th financial statement publication date for insurance programs' subsequent events may include:~~

~~a. Recognized event: a claim which is settled (transaction) on October 30th for an amount significantly different from the liability recorded for an adverse event that occurred on September 20th would require adjustment to the financial statements.~~

~~b. Nonrecognized event: a major disaster that occurs on October 20th would not require an adjustment to the financial statements, but may require disclosure.~~

Disclosures:

~~A22.~~A27. Disclosures are required for each insurance program category to aid the reader in understanding the estimates and fiscal health of insurance programs in relation to the risk they assume for losses incurred due to adverse events.

Avoiding Duplicity of Information:

a. Task force research informed the Board that current standards required presentation of similar information in multiple places (for example, notes and required supplementary information), which burdened the agencies and readers. In addition, disclosures were inconsistent among programs, making it difficult to determine the fiscal health—the amount of loss estimated versus the amount and

funding types necessary to settle the actual losses—of individual programs as well as insurance programs at the government-wide level.

b. The Board believes that the updated disclosures will avoid duplication by allowing insurance programs to reference relevant notes.

Schedule for Changes in the Liability for Unpaid Insurance Claims:

c. For consistent reporting, the Board developed a schedule to reconcile the liability for unpaid claims that a number of insurance programs already produced. The Board reviewed the current schedules and consolidated relevant information for consistent reporting. All categories should report this schedule so readers receive consistent information.

d. The Board believes that requiring disclosure of **gross costs**, premiums collected, appropriations used, borrowing needed during the reporting period, as well as the ability to repay the borrowing should provide a holistic picture of an insurance program's performance. One respondent inquired if federal employee payroll and related expenses are included in disclosing gross costs. The Board recommends that management include all expenses that are captured in its "gross costs" line on the Statement of Net Cost for this disclosure.

~~c.~~ The Board believes that disclosing the balance of **insurance in-force** as of the end of the reporting period will provide useful information as to the maximum risk exposure to the program. However, one respondent requested and the Board agreed to update the standard for to provide more clarity on how the program should explain that paying the full amount of insurance in-force is very unlikely.

Low Probability, High Impact Adverse Events-Uncertainty:

~~The Board learned from the task force that there are low probability, high impact adverse events that, if they occur, can cause material financial losses. The following are examples of hard to predict adverse events that cause substantial loss: a "Katrina" type of hurricane or political uprising in a country that completely disrupts American businesses. Therefore the Board requested that adverse events causing a material change in amounts for the reporting period be disclosed.~~

~~d.~~e. Some respondents were concerned about how to disclose the **uncertainty** of adverse events, including those that are **low probability, high impact** (very rare, but upon occurrence causes extreme loss). The Board understands that uncertainty is subjective to each insurance program in relation to the risks it insures which may cause extreme loss that is hard to estimate. Some programs may also encounter uncertainty in relation to a multitude of events that must occur over time and often do not map to the financial statement schedule before loss can be determined.

i. The following are examples of hard to predict adverse events that may cause substantial losses: a “Katrina” type of hurricane, a political uprising in a country that completely disrupts American businesses or an unusual detrimental weather pattern combined with volatile commodity pricing.~~.~~

ii. Due to this uncertainty in magnitude and timing, the Board believes that the disclosure about estimating uncertainty allows management to discuss its particular constraints in determining the liability for losses on remaining coverage.

Presenting Disclosure Information:

~~e.~~f. One respondent questioned whether information should be presented in a table or chart instead of a narrative. The Board determined that a narrative discussion for the disclosures would allow management to provide the information necessary to explain the specifics of its insurance programs. Management may present additional information in charts or tables as appropriate.

Disclosures – Financial Report of U.S. Government:

~~A23.~~A28. Disclosures for the financial report of the U.S. Government should be reported at a high level of detail. The Board believes that detailed disclosures should be found at the component reporting entity level.

APPENDIX B: ABBREVIATIONS

CAE	Claim adjustment expense
CFR	Consolidated financial report of the U.S. Government
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
IBNR	Incurred but not reported
OMB	Office of Management and Budget
RSI	Required supplementary information
SFAS	Statement of Financial Accounting Standards (FASB)
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX C: GLOSSARY

Adverse Event—may be a single-occurring event or a series of events that cause losses to the beneficiary (ies) as identified in the insurance arrangement.

Cash Surrender Value—is the sum of money an insurance company will return to the policyholder if the policy is cancelled before its maturity or the insured event (death) occurs.

Claim Adjustment Expenses (CAE)—incremental costs directly attributable to investigating, settling, and/or adjusting claims. An incremental cost is one that can result only when claims have been incurred. CAE include but are not limited to legal and adjuster's fees. CAE may be incurred through work performed by federal employees and/or contractors.

Arrangement Period—the period over which adverse events that occur are covered.

~~**Entitlement Program**—is a program in which the federal government becomes automatically obligated to provide benefits to members of a specific group who meet the requirements established by law.~~

Comment [RG7]: Remove if Board approves removing as an exclusion.

Exchange Transaction Insurance Programs Other Than Life Insurance—cover the risk of loss from adverse events, other than death of individuals, involved in exchange transactions as defined in SFFAS 7.

Expected Cash Flow—(also known as expected value (EV) in some accounting literature) refers to the sum of probability weighted amounts in a range of possible estimated amounts.

In-Force—refers to arrangements that are unexpired as of a given date.

Incurred But Not Reported (IBNR)—estimated claims from adverse events that have occurred as of the end of the reporting period, but have not yet been reported to the insurance program for settlement.

Insurance Claim—a formal request for payment for losses as authorized under the insurance arrangement.

Insurance Arrangement (Arrangement)—a general term used for an explicit insurance or non-loan guarantee agreement or arrangement between an insurance program and specific parties such as but not limited to: individuals, state, local, or foreign governments, other federal agencies, or businesses. A arrangement may include and/or identify: the term the insurance arrangement is in-force, the insurance program's responsibilities, the risk assumed by the insurance program, such as: all risk for covered losses, partial risk by filling a gap where commercial insurance companies are not able or willing to provide the insurance, or a timing risk wherein the insurance program provides compensation for losses in anticipation that future funding sources will be sufficient to cover all or part of past benefits paid; the adverse event, the insured party(ies) and their premium requirements, the beneficiary(ies) and their responsibilities for filing claims, and/or the financial compensation.

Insurance Portfolios—is a grouping of insurance programs or arrangements that have some meaningful relationship based on arrangement period/duration, shared risks, management, customers, geographic regions, or other factors.

Insurance Program—is a general term used to refer to an insurance or non-loan guarantee program that is authorized by law to financially compensate a designated population of beneficiaries by accepting all or part of the risk for losses incurred as a result of an adverse event.

Liability for Losses on Remaining Coverage—an accrued obligation to beneficiaries attributable to coverage of insured events anticipated to occur after the end of the reporting period through the open arrangement period.

Life Insurance Programs—cover the risk of loss from death of individuals involved in exchange transactions as defined in SFFAS 7.

Nonexchange Transaction Insurance Programs— cover the risk of loss from adverse events through nonexchange transactions as defined in SFFAS 7.

Premiums—a general term used to refer to exchange revenue billed by insurance programs. Programs may refer to their exchange revenue by various terms including but not limited to premiums, assessments, and/or fees.

Recoveries—monies recouped or recovered from: another agency through an indemnification agreement, a third party or commercial insurance company to repay all or part of a loss originally paid for by the program, the sale of salvageable parts through acquisition and disposal or salvage of assets, and/or adjustments to previously paid insurance claims.

Settlement Amount— is the amount at which an asset can be realized or a liability can be liquidated.

FASAB Board Members

D. Scott Showalter, Chair

Gila J. Bronner

Robert F. Dacey

Michael H. Granof

Christina Ho

Sam M. McCall

Mark Reger

George A. Scott

Graylin E. Smith

FASAB Staff

Wendy M. Payne, Executive Director

Robin M. Gilliam, Assistant Director

Federal Accounting Standards Advisory Board
441 G. Street, NW, Suite 6814
Mailstop 6H19
Washington, DC 20548
Telephone (202)512- 7350
Fax (202)512-7366
www.fasab.gov