FASAB

Federal Accounting Standards Advisory Board

December 4, 2015

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: Risk Assumed—Insurance Programs [Phase 1]—**TAB B**[1]

MEETING OBJECTIVES

The meeting objective is to:

I. Review the draft exposure draft (ED) in preparation for a pre-ballot.

BRIEFING MATERIALS

- Staff Memo
- Attachment I: **Marked version** of the Risk Assumed-Insurance Programs Draft ED.
- Appendix A: Risk Assumed - Project Decision History and Milestones (Optional Reading for Reference)

[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 the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND

At the October 2015 Board meeting, the Board reviewed the following sections of the Risk Assumed-Insurance Program Exposure Draft:

Exchange Transaction Insurance Programs Other Than Life Insurance

• Liability for Losses on Remaining Coverage:

The Board reviewed the standard for how to measure the estimated losses for the liability for losses on remaining coverage. The Board confirmed that expected value (EV) is the first approach an agency should consider for estimating losses. If EV is not feasible or appropriate to use then an agency can choose an alternative method. There was a significant discussion about when EV is not feasible or appropriate and which option (presented in the October 2015 Board memorandum) allows an alternative method without adding an extra burden to financial statement preparers. The Board approved option (c), with minor changes by staff, to provide agencies with the most flexibility.

• Streamlined Disclosures:

1. Staff presented Factors for Determining Disclosures, a new section that includes guidance about materiality and referencing other disclosures. The Board approved this section and requested staff to make minor changes.

2. The Board discussed the detailed cost and revenue schedule in par. 38. The Board requested that staff update this disclosure by providing a narrative alternative to the schedule.

3. The Board discussed the liability balance for unpaid insurance claims schedule in par. 39. The Board approved keeping the schedule, yet requested staff to consolidate the current and prior year lines.

Life Insurance Programs

The Board discussed the liability for future benefits. They approved adding “including contract duration” (par. 52) to allow agencies to segregate out short-duration portfolios if they exist. In addition, the Board discussed whether life insurance has unearned premiums. The Board accepted the explanation that life insurance does not recognize unearned premiums because future net premiums are an adjustment against the liability and not separated out on the balance sheet.

STAFF ANALYSIS AND RECOMMENDATIONS FOR PROPOSED STANDARDS

I. Approve Updated Liability for Losses on Remaining Coverage Standards and Basis for Conclusion

Staff Analysis and Recommendation:

During the October 2015 meeting, the Board confirmed that expected value is the first approach an agency should consider for estimating losses. However, there was still concern about how to clearly provide for allowance of another method.

Paragraphs (pars.) 31–37 and A16 of Attachment I were updated as a result of the below research:

1. Staff reviewed FASB: Statement of Financial Accounting Concepts No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements,* which uses the term *expected cash flow* instead of *expected value*. The Board originally used the term *expected value* from FASB's revenue standards. However, because these standards address how to measure future losses, staff recommends using the terminology *expected cash flow*.

   Please see par. 16 for a new definition, and par. 33 for the updated standard.

2. According to FASB Concepts No. 7, there are various methods that are acceptable and comparable to expected cash flow for estimating future losses. Staff removed the reference to specific methods and updated the standard in par. 34 to include a general reference to other acceptable methods.

   Please see par. 34 for the updated standard and par. A16 for the basis for conclusion discussion.

3. Staff also worked with the task force (TF) to clarify the liability for losses on remaining coverage standards.

   Please see pars. 31 and 37 for the TF edits.

4. The original wording in par. 35 for the use of methods other than expected cash flow was "feasible and appropriate." A number of members used the word practical when discussing when to allow a single most-likely amount noting that "practical" was a better word than "appropriate." Staff research found the following general definitions: feasible (easy to accomplish), practical (can actually achieve it), or appropriate (right for the purpose). Due to these definitions, staff replaced feasible with practical and retained appropriate.

   Please see par. 35 for the updated standard and P A16 for the basis for conclusion discussion.

Question I. Does the Board approve the updated standards (pars. 31-37) and basis for conclusion for the liability for losses on remaining coverage (par. A16).

II. Approve Narrative that Replaces Expense and Revenue Schedule:

Staff Analysis and Recommendation:

During the October 2015 meeting, the Board voted to remove the detailed cost and revenue schedule for each category and replace it with a narrative.

Staff removed the schedules and replaced them with narrative in pars. 41.b; 50.b; and 64.c. for each category.

Question II. Does the Board approve the narratives that replace the expense and revenue schedules in pars. 41.b; 50.b; and 64.c.?

III. Approve Updated Liability Balance for Unpaid Insurance Claims Schedule

Staff Analysis and Recommendation:

During the October 2015 meeting, the Board approved keeping the liability balance for unpaid insurance claims schedule for each category, yet requested staff to consolidate the current and prior year lines.

Staff updated these schedules accordingly, in pars. 42, 51, and 65.

Question III. Does the Board approve the updated liability balance for unpaid insurance claims schedule in pars. 42, 51, and 65?

IV. Approve Basis for Conclusions

Staff Analysis and Recommendation:

During the October 2015 meeting, members requested that examples be added to the following the Basis for Conclusions:

1. Unearned revenues (pars. A12 a. & b.)
2. Subsequent events (pars. A19 a. & b.)
3. Low probability high impact adverse events (par. A20 d.)

Staff updated the Basis for Conclusions accordingly.

Question IV. Does the Board approve the Basis for Conclusions?

QUESTION FOR THE BOARD:

I. Does the Board approve the updated standards (pars. 31-37) and basis for conclusion for the liability for losses on remaining coverage (par. A16)?

II. Does the Board approve the narratives that replace the expense and revenue schedules in pars. 41.b; 50.b; and 64.c.?

III. Does the Board approve the updated liability balance for unpaid insurance claims schedules in pars. 42, 51, and 65?

IV. Does the Board approve the Basis for Conclusions?

NEXT STEP

Present the exposure draft for pre-ballot.

Per the Board Meeting Process: members **should inform staff as soon as possible in writing** if they wish to make an alternative proposal. This will help to achieve an efficient and effective delivery of the exposure draft and subsequent standards.

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 B– Attachment I

Insurance Programs

Proposed Exposure Draft

– Marked –

December 2015

Federal Accounting Standards Advisory Board

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INSURANCE PROGRAMS

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

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, 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 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 FASAB's website at: www.fasab.gov.

Contact us:

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Federal Accounting Standards Advisory Board

ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, *Insurance Programs*, are requested. Specific questions for your consideration start on page **6** but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by DUE DATE.

All comments received by the FASAB are considered public information. Those comments will be posted to the FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB's newsletter.

Sincerely,

Tom L. Allen

Chairman

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing accounting standards for insurance programs. Insurance programs is a general term that includes insurance and non-loan guarantee 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 would define terms relating to insurance programs. The definitions would help to identify and classify insurance programs and related financial activities for financial reporting purposes.

This Statement would provide guidance for how and when insurance programs should recognize revenue, expenses, and liabilities. This Statement would provide guidance for estimating losses for remaining coverage when contracts provide coverage after the reporting date. This Statement would update disclosure guidance to encourage concise, meaningful, and transparent information. The proposed recognition and measurement and disclosure guidance would provide for consistent reporting across all insurance programs.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This Statement is intended to improve federal financial reporting for insurance programs by providing concise, meaningful, and transparent information about the cost of insurance programs and the related liabilities. This information would inform readers regarding the operating performance of insurance programs and exposures to risk of loss related to adverse events. This information is essential to meeting the stewardship and operating performance objectives.

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QUESTIONS FOR RESPONDENTS

The Board encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by [insert date].

Q1. The definition for an insurance program (par. 9) identifies the fundamental nature of these programs. The substance and not the name of a program will determine if it is an insurance program and therefore subject to these standards.

Do you agree or disagree with the definition of an insurance program? Please provide the rationale for your answer.

Q2. Additional new terms were introduced (par. 9 – 25) in order to provide definitions needed to consistently report on insurance programs.

Do you agree or disagree that the additional terms will assist insurance programs in producing consistent reporting? Please provide the rationale for your answer.

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, and Nonexchange Transaction Insurance Programs.

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

Q4. New standards were introduced (par. 26-38) for exchange transaction insurance programs other than life insurance. These programs are required to recognize a liability for losses on remaining coverage (par. 31-37). This liability 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 determine 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

a. Do you agree or disagree that the liability for losses and the measurement methods (par.31-37) will improve estimation for losses on remaining coverage? Please provide the rationale for your answer.

b. Do you agree or disagree with the disclosures for the exchange transaction insurance programs other than life insurance in par. 39-42? Please provide the rationale for your answer.

Q5. New standards were introduced (par. 43 – 51) for nonexchange transaction insurance programs.

a. **Do agree or disagree that recognition guidance (par. 43-47) 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 in par. 48-51? Please provide the rationale for your answer.

Q6. New standards were introduced (par. 43 – 51) for life insurance programs.

a. **Do agree or disagree that recognition guidance (par. 43-47) 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 in par. 62-65? Please provide the rationale for your answer.

Q7. New disclosures were introduced (par. 66) for the Consolidated Financial Report of the US Government.

Do you agree or disagree with the disclosures applicable to the Consolidated Financial Report of the US Government in par.66? Please provide the rationale for your answer.

INTRODUCTION

PURPOSE

1. This project was undertaken to ensure that the risk assumed through insurance 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 and includes a requirement to report risk assumed. However, information provided about insurance programs was not comparable or informative. Further review found that it is challenging to determine the financial results and position of insurance programs.

2. 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 to 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.

3. This Statement is intended to improve federal financial reporting for insurance programs by providing concise, meaningful, and transparent information about the cost and related liabilities in order to understand the operating performance of insurance programs and exposures to risk of loss related to adverse events.

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 to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (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 used not addressed in this Statement should be reported in accordance with other standards.

7. This Statement rescinds the section: Insurance and Guarantee Programs 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.

Comment [RG1]: Added per Hal S.

DEFINITIONS

Definitions in paragraphs 9-25 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 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.

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]

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

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

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

d. Entitlement programs

e. Programs that self-insure their own activities, but whose missions are not by statute to provide insurance[4]

f. Programs that process claims through an administrative or judicial process, but whose missions are not by statute to provide insurance[5]

g. Programs that provide security against loss or damage through contractual indemnification of another party, but whose missions are not by statute to provide insurance[6]

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 contract.

12. **Cash surrender value**—the "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.

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. **Contract period**—"Contract 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 as defined in SFFAS 7.[7]

[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] 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 or first responders within programs that do not have a statutory insurance or guarantee mission.

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

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 contracts that are unexpired as of a given date.

18. **Incurred but not reported (IBNR)**—“Claims incurred but not reported (IBNR)” are 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.

19. **Insurance claim**—an “insurance claim” is a formal request for payment for losses as authorized under the insurance contract.

20. **Insurance contract (contract)**— An “insurance contract (contract)” is 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 contract may include and/or identify:

    a. the term the insurance contract 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, or
        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.
    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. **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 contract period.

22. **Life Insurance Programs**—“Life insurance programs” cover the risk of loss from death of individuals involved in exchange transactions as defined in SFFAS 7.

23. **Nonexchange Transaction Insurance Programs**— “Nonexchange transaction insurance programs” cover the risk of loss from adverse events for beneficiaries of nonexchange transactions as defined in SFFAS 7.

24. **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. **Recoveries**—"Recoveries" include monies recouped or recovered from:

   a. another agency through an indemnification agreement,
   b. a third party or commercial insurance company to repay all or part of a loss originally paid for by the program,
   c. the sale of salvageable parts through acquisition and disposal or salvage of assets, and/or
   d. adjustments to previously paid insurance claims.

EXCHANGE TRANSACTION INSURANCE PROGRAMS OTHER THAN LIFE INSURANCE

RECOGNITION AND MEASUREMENT

REVENUE AND LIABILITY FOR UNEARNED PREMIUMS

26. Premiums should be recognized as revenue when earned in proportion to insurance protection provided.

Comment [RG2]: Updated to be in parallel with par. 27.

Deleted: evenly over the contract period.

27. 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 contract period.

LIABILITY FOR UNPAID INSURANCE CLAIMS

28. 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.

29. 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),

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

(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.[9]

(2) Management should use judgement 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 group of contracts 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.

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

LIABILITY FOR LOSSES ON REMAINING COVERAGE

31. 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 contract period less the sum of both related unearned premiums as of the end of the reporting period and future premiums.

32. Estimates should be determined by considering groups of contracts rather than individual contracts according to similar characteristics including contract duration.

33. An entity should estimate the amounts to be paid to settle future claims during the remaining open contract period using **expected cash flow**[11] based on all available information existing at the balance sheet date, including experience with previous trends, and, as appropriate, the views of independent experts.

34. 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.

35. 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 contract period.

[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.

[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] Terms defined in the Glossary are shown in **bold-face** the first time they appear.

Comment [RG3]: Updated per RMA-Crop TF.

Deleted: collected

Deleted: less the sum of related unearned premiums as of the end of the reporting period and future premiums to be collected for the remaining open contract period.

Comment [RG4]: Staff replaced the term "expected value" with "expected cash flow because this is the term FASB uses in (Concepts 7). Expected value was picked up when we used a model from FASB's revenue standard. Staff believes expected cash flow is a clearer term.

Comment [RG5]: The original wording was "feasible and appropriate." A number of members used the word practical when discussing allowing a single most-likely amount. General definitions: feasible (easy to accomplish), practical (can actually achieve it), or appropriate (right for the purpose). Due to these definitions, staff replaced feasible with practical and retained appropriate.

Deleted: <#>An entity should estimate the amounts to be paid to settle future claims during the remaining open contract period using the expected value of future claims based on all available information existing at the balance sheet date, including experience with previous transactions, trends, and, as appropriate, the views of independent experts. Expected value is the sum of all possible values each multiplied by the probability of its occurrence. ¶
<#>An entity may use a method other than expected value, such as a regression model or most likely amount, if the **expected value is not feasible or appropriate to estimate the amount to be paid** to settle future claims for the open contract period. The alternative method should be based on all available information existing at the balance sheet date, including experience with previous transactions, trends and/or current conditions, and, as appropriate, the views of independent experts.¶

36. 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.)

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

Comment [RG6]: Updated per RMA-Crop and OPM TF for clarity.

Deleted: claims

Deleted: Adjustments to the liability for losses on remaining coverage should be recognized as losses or gains over the remaining insurance coverage.

SUBSEQUENT EVENTS

38. Adverse events occurring after the balance sheet date but before the financial report is issued are considered subsequent events. Nonrecognized events consist of those subsequent events that provide evidence with respect to conditions that did exist at the end of the reporting period, but arose subsequent to that date. Adverse events 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, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statement on Auditing Standards.* par.15.

DISCLOSURE REQUIREMENTS

Factors in Determining Disclosures

Comment [RG7]: Entire section updated from Board Meeting Rewrite.

39. 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 contracts. Acceptable quantitative factors may include whether certain groups of contracts are accumulating large claim expenses or unpaid claim liability balances. Acceptable qualitative factors may include whether a group of contracts is of immediate concern to constituents, politically sensitive, and/or controversial.

40. 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.

[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.

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

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. The gross cost and how that relates to premiums, appropriations used, and borrowing during the period, as well as a discussion about the ability to repay borrowing.

c. Investing activities

d. Contract 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 requirements to set premium prices that do not cover the full estimated cost to settle claims.

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.

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 contract period, and appropriate information to aid in assessing such risk.

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.

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

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

Comment [RG8]: This narrative replaces the detailed schedule that the Board did not want to require just for insurance programs.

Comment [RG9]: – UPDATE Per Michael - "and appropriate information to aid in avoiding the misleading inference that there is more than a remote likelihood of a loss of that amount" -- Why focus only on more than a remote likelihood; why not less. How about **"and appropriate information to aid in assessing such risk"**

Deleted: avoiding the misleading inference that there is a more than remote likelihood of a loss of that amount

Comment [RG10]: Board did not want to disaggregate this information just for insurance programs.

Deleted: <#>¶
<#>¶
¶
<#>Insurance programs should describe their funding sources, investing and borrowing activities, and the ability to repay borrowing. Programs also should provide the following information:¶
<#>Total Gross Cost including the following components:¶
<#>Claims expense¶
<#>Claims adjustment expense¶
<#>Recoveries¶
<#>Interest expense¶
<#>Losses or gains on remaining coverage¶
<#>Other gross costs¶
<#>Revenue including premiums and interest earned¶
<#>Net cost¶
<#>Change in net position including nonexchange revenue, appropriations used, and other financing sources¶
<#>¶

Comment [RG11]: Updated schedule to remove current and prior year breakout for incurred and payments per Gray S. and approval by Board.

NONEXCHANGE TRANSACTION INSURANCE PROGRAMS

RECOGNITION AND MEASUREMENT

REVENUE

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

LIABILITY FOR UNPAID INSURANCE CLAIMS

44. 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.

45. 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 judgement 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.

        iii. If estimated recoveries exceed the related claims for a specific portfolio then recognition is limited to the amount of the related claims.[14]
        iv. Recoveries should be recognized as reductions of claims, rather than as revenue.

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

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[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.

SUBSEQUENT EVENTS

47. Adverse events occurring after the balance sheet date but before the financial report is issued are considered subsequent events. Nonrecognized events consist of those subsequent events that provide evidence with respect to conditions that did not exist at the end of the reporting period, but arose subsequent to that date. Adverse events 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

48. 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 contracts are accumulating large claim expenses or unpaid claim liability balances. Acceptable qualitative factors may include whether a group of contracts is of immediate concern to constituents, politically sensitive, and/or controversial.

49. 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

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

    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. The gross cost and how that relates to nonexchange revenue collected, appropriations used, and borrowing during the period, as well as a discussion about the ability to repay borrowing.

    c. Investing activities

    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.

Comment [RG12]: Removed schedule/replaced with narrative disclosures.

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

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

Deleted: <#>Insurance programs should describe their funding sources, investing and borrowing activities, and the ability to repay borrowing. Programs also should provide the following information: ¶
<#>Total Gross cost including the following components:¶
<#>Claims expense¶
<#>Claims adjustment expense¶
<#>Recoveries¶
<#>Interest expense¶
<#>Other gross costs¶
¶
<#>Change in net position including nonexchange revenue, appropriations used, and other financing sources¶

Deleted: <#>lBeginning balance¶
Incurred claims attributable to insured adverse events of:¶
the current fiscal year, and ¶
prior fiscal years¶
Payments attributable to insured adverse events of:¶
the current fiscal year, and ¶
prior fiscal years¶
Recoveries and other adjustments¶
Ending balance

LIFE INSURANCE PROGRAMS

RECOGNITION AND MEASUREMENT

REVENUE

52. Premiums should be recognized as revenue when due from policyholders.

LIABILITY FOR UNPAID INSURANCE CLAIMS

53. 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.

54. 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 contracts then recognition is limited to the amount of the related claims.[15]
   ii. Recoveries should be recognized as reductions of claims, rather than as revenue.

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

[15] 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.

LIABILITY FOR FUTURE POLICY BENEFITS

56. 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.

57. Estimates should be determined by considering groups of contracts rather than individual contracts according to similar characteristics including contract duration.

58. 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)

59. 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.

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

SUBSEQUENT EVENTS

61. Adverse events occurring after the balance sheet date but before the financial report is issued are considered subsequent events. Nonrecognized events consist of those subsequent events that provide evidence with respect to conditions that did not exist at the end of the reporting period, but arose subsequent to that date. Adverse events 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

62. 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 contracts. Acceptable quantitative factors may include whether certain groups of contracts are accumulating large claim expenses or unpaid claim liability balances. Acceptable qualitative factors may include whether a group of contracts is of immediate concern to constituents, politically sensitive, and/or controversial.

63. 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.

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

   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. The gross cost and how that relates to premiums, appropriations used, and borrowing during the period, as well as a discussion about the ability to repay borrowing.

   d. Investing activities.

   e. The nature and magnitude of uncertainty in calculating the liability for future policy benefits, including the basis and methods, trend information, including the amounts of liability for future policy benefits during the reporting period(s), risk assumptions and factors; and, actuarial assumptions used in determining the expected present value of future outflows and future premiums to be collected from those policyholders.

   f. The total value of life insurance policies issued—insurance in force—at the end of the reporting period and appropriate information to aid in assessing the risk of such a loss occurring.

   g. 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. 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.

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

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

Comment [RG13]: This is the narrative that replaces the detailed schedule that the Board did not want disaggregated for insurance programs.

Comment [RG14]: Update per Michael –se note on par.41.g

Deleted: <#>avoiding the misleading inference that there is a more than remote likelihood of a loss of that amount.¶

Comment [RG15]: Removed schedule/replaced with narrative disclosures

Deleted: Insurance programs should describe their funding sources, investing and borrowing activities, and the ability to repay borrowing. Programs also should provide the following information:

Deleted: ¶
<#>Total Gross Cost including the following components:¶
<#>Claims expense¶
<#>Claims adjustment expense¶
<#>Recoveries¶
<#>Interest expense¶
<#>Losses or gains on remaining coverage¶
<#>Other gross costs ¶
¶
<#>Earned Revenue including premiums earned and interest earned¶
<#>Net cost¶
<#>(Gain)/loss on assumption changes¶
<#>Change in net position including nonexchange revenue, appropriations used, and other financing sources¶
¶

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

66. The Consolidated Financial Report of the U.S. Government should disclose the following information:[16]

  a. a broad description of insurance programs,
  b. a general reference to relevant component reporting entity reports,[17]
  c. the balance for insurance program liabilities,
  d. a narrative discussion of programs' ability or inability to repay any borrowing, and
  e. the amount of insurance in-force at the end of the reporting period and the appropriate information to aid in assessing the risk of such a loss occurring.

EFFECTIVE DATE

67. The requirements of this Statement are effective for reporting periods beginning after September 30, 2017.

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

Deleted: Beginning balance¶
Incurred claims attributable to insured adverse events of:¶
the current fiscal year, and ¶
prior fiscal years¶
Payments attributable to insured adverse events of:¶
the current fiscal year, and ¶
prior fiscal years¶
Recoveries and other adjustments¶
Ending balance

Deleted: separately for exchange, nonexchange, and life insurance programs

Deleted: each category and the included

Deleted: each of the following, including detail for each significant individual insurance program:¶
<#>liability for unpaid claims,¶
<#>liability for losses on remaining coverage,¶
<#>liability for future benefits,¶
<#>total net cost for all insurance programs,¶

Comment [RG16]: Update per Michael, see par.41.g for specifics

Deleted: ¶
the amount of insurance in-force at the end of the reporting period and the appropriate information to aid in avoiding the misleading inference that there is a more than remote likelihood of a loss of that amount

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

[17] 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. Assure consistent reporting for all insurance programs implemented by the federal government.
c. Address measurement uncertainty regarding estimating losses on open contracts as of the end of the reporting period.
d. Assure disclosures address uncertainties and risk factors.
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 guarantee against certain types of adverse events. The funding structure does not affect whether a program qualifies as an insurance program but does affect classification.

KEY AREAS OF IMPROVEMENT

A9. 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,

b. guidance for revenue recognition and unearned premiums,

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

d. structured disclosure requirements.

Definitions of Relevant Terms

A10. 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 determined that the following provided the foundation for the definitions developed for this project.

a. Insurance Program—the definition for an insurance program identifies the 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. The Board also approved a list of excluded activities to provide clarity as to what is not an insurance program.

b. 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.

c. Insurance Contract—the task force provided information that exchange transaction insurance programs and life insurance programs engage in an explicit agreement or arrangement. The definition of a contract includes the elements that these insurance programs may agree to in order to provide settlement of losses to beneficiaries.

d. 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 collect premiums through contracts.

    ii. Nonexchange Transaction Insurance Programs collect funds on demand and/or receive appropriations.

    iii. Life Insurance Programs collect premiums for life insurance contracts. Premiums are due and collected each pay period or on another recurring basis.

Revenue Recognition and Liability for Unearned Premiums:

Comment [RG17]: Unearned revenue discussion requested by Sam M.

A11. The standards for found in SSFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* provided 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.

A12. 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 in relation to specific events: An exchange program covers three events to be held during a 12-month contract. The premium of $1,500 is collected on July 1st. By September 30th, two of the three events have occurred earning the exchange program $1,000. The remaining $500 is unearned because one event is still covered during the remaining contract period from October 1st through June 30th. The $500 is recognized separately on the balance sheet as unearned premium.

b. The following is an example of revenue that is earned in relation to the duration of a contract: An exchange program engages in a 12-month contract. 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 contract 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.

A13. 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. Life insurance programs do not recognize unearned premiums. The Board believes that revenue from life insurance contracts 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 contract. 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.

A15. 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 (IBNR). 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 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 (CAE) 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. 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 contract period.

a. The Board believes that separating this portion of liability from the unpaid claims portion will remove confusion created by the SFFAS 5 reference to general standards for contingencies and improve 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 (RMA) oversees crop insurance and relies upon a regression analysis to estimate cash flows.[18] The Department of Homeland Security's Federal Emergency Management Agency (FEMA) oversees flood insurance and relies on a log-normal distribution to estimate cash flows.[19] Such tools can be used to arrive at expected cash flow even though they are not as straight forward as the simple 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.

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 contract period.

A17. 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 contract duration. These amounts are discounted to the present value in order to recognize the liability for future benefits.

A18. Estimates for the liability for losses on remaining coverage and future policy benefits are recognized by groups of contracts with similar characteristics including contract duration. The Board decided not to define "contract duration" due to the subjective nature of duration. For example, one insurance program might determine that a 36-month contract is short-duration, while another one assigns it to a long-duration group. Recognizing these liabilities by groups of contracts allows judgement by each insurance program in defining the duration of their contracts.

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[18] Regression analysis is a statistical process for estimating the relationships among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables (or 'predictors). More specifically, regression analysis helps one understand how the typical value of the dependent variable (or 'criterion variable') changes when any one of the independent variables is varied, while the other independent variables are held fixed. Source: https://en.wikipedia.org/wiki/Regression analysis.

[19] In probability theory, a log-normal (or lognormal) distribution is a continuous probability distribution of a random variable whose logarithm is normally distributed. Source: https://en.wikipedia.org/wiki/Log-normal_distribution

A19. Adverse events 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. SFFAS 39, *Subsequent Events,* provides more detailed guidance including examples of subsequent events that are recognized and nonrecognized events. Examples regarding subsequent events relating to insurance programs include:

a. Recognized event: the settlement of a significant claim for an amount different from the liability recorded in the accounts would require adjustment if the event that gave rise to the claim had taken place prior to the end of the reporting period and the settlement is reached before the financial report is issued.

b. Nonrecognized event: a major disaster that occurred after the end of the reporting period but before the financial report is issued would not require adjustment but may require disclosure.

A20. 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.

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 governmentwide level.

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

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 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.

Comment [RG18]: Examples requested by Michael G.

A21. Disclosures for the financial report of the US 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
ED	Exposure draft
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
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
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 contract.

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.

Contract 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.

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.

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.

In Force—refers to contracts 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 contract.

Insurance contract (contract)—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 contract may include and/or identify: the term the insurance contract 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.

Comment [RG19]: Update in Main Glossary which now defines expected value.

Insurance program—is 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 contract 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 for beneficiaries of 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.

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TAB B – Appendix A

Risk Assumed:
Insurance Programs

Project Decision History and Milestones

(Optional Reading for Reference)

Risk Assumed: Insurance Programs Project Decision History and Milestones

October 2015:

At the October 2015 Board meeting, the Board reviewed the following sections of the Risk Assumed-Insurance Program Exposure Draft:

Exchange Transaction Insurance Programs Other Than Life Insurance

• Liability for Losses on Remaining Coverage:

The Board reviewed the standard for how to measure the estimated losses for the liability for losses on remaining coverage. The Board confirmed that expected value (EV) is the first approach an agency should consider for estimating losses. If EV is not feasible or appropriate to use then an agency can choose an alternative method. There was a significant discussion about when EV is not feasible or appropriate and which option (presented in the October 2015 Board memorandum) allows an alternative method without adding an extra burden to financial statement preparers. The Board approved option (c), with minor changes by staff, to provide agencies with the most flexibility.

• Streamlined Disclosures:

1. Staff presented Factors for Determining Disclosures, a new section that includes guidance about materiality and referencing other disclosures. The Board approved this section and requested staff to make minor changes.

2. The Board discussed the detailed cost and revenue schedule in par. 38. The Board requested that staff update this disclosure by providing a narrative alternative to the schedule.

3. The Board discussed the liability balance for unpaid insurance claims schedule in par. 39. The Board approved keeping the schedule, yet requested staff to consolidate the current and prior year lines.

Life Insurance Programs

The Board discussed the liability for future benefits. They approved adding “including contract duration” (par. 52) to allow agencies to segregate out short-duration portfolios if they exist. In addition, the Board discussed whether life insurance has unearned premiums. The Board accepted the explanation that life insurance does not recognize unearned premiums because future net premiums are an adjustment against the liability and not separated out on the balance sheet.

<u>August 2015:</u>

At the August 2015 Board meeting, the Board continued to review the proposed insurance standards for risk assumed.

The following items were discussed:

I. <u>Category Titles:</u>

<u>Staff recommended that the Board update the risk assumed-insurance program titles by replacing the word "revenue" with the word "transaction" because </u>there are exchanges that are other than revenue, such as employee benefits:

I. Exchange ~~Revenue~~ Transaction Insurance Programs Other than Life Insurance
II. Nonexchange ~~Revenue~~ Transaction Insurance Programs
III. Life Insurance Programs

The Board approved this update.

II. <u>Proposed Standards for Life Insurance Programs:</u>

A. Streamlining Disclosures:

A number of members were concerned with the volume of life insurance disclosures, noting the following:

- the detail in some of the proposed standards may not be materially necessary;
- because this is a risk assumed standard, these disclosures should focus on the risk assumed elements of these programs and not everything about the program;
- agencies should be encouraged to disclose what is relevant based on minimal standards,
- the financial statements should tell readers if the program has assumed more or less risk;
- disclosures should be streamlined for component level reporting, and even more so for the governmentwide report; and
- provide more flexibility using an if - then disclosure.

B. <u>Include Disclosures for Short- and Long-Duration Contracts</u>

The Board asked staff to include additional information in order to provide adequate guidance to recognize, measure, and disclose for:

1. long-duration contracts within the exchange transaction insurance programs other than life insurance category, and

2. short-duration term life insurance contracts within the life insurance programs category.

June 2015:

At the June 2015 Board meeting, the Board continued to review the updated proposed insurance standards for risk assumed. Staff provided the Board with updated information that can be found on the Risk Assumed project page at: http://www.fasab.gov/projects/active-projects/risk-assumed/

The following items were discussed:

Estimated Losses on Remaining Coverage:

The Board reviewed the proposed language for measuring estimating losses on remaining coverage and returned to their original plan to require expected value, with more definitive language. In the event that expected value is not feasible or appropriate, the most likely amount would then be required. All Board members approved, except Mr. McCall who was absent, and Mr. Engel who was sitting in for Mr. Dacey, stating that Mr. Dacey preferred the most likely amount first and then expected value. Board members noted that the approved order and language should clarify and address any audit issues.

Subsequent Events:
The Board asked staff to provide a better transition from estimating losses on remaining coverage to subsequent events.

Proposed Insurance Program Categories:

Staff recommended three categories: 1) exchange revenue insurance programs other than life insurance, 2) nonexchange revenue insurance programs, and 3) life insurance programs.

Staff explained that SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, provides the definition for revenue types, and noted that SFFAS 7 and SFFAS 5, *Accounting for Liabilities of The Federal Government*, are in synch. Therefore, SFFAS 7 will identify whether a transaction is exchange or nonexchange and the related timing and recognition of revenue; while SFFAS 5 will govern when the associated loss becomes a liability.

Exchange revenue insurance programs other than life insurance category:
The exchange revenue insurance programs collect revenue through contracts/agreements. This category precludes separate categories for short- and long-duration contracts because the proposed standards will require disclosures by portfolio. Therefore, agencies should include short- and long-duration contracts in separate portfolios according to their similar characteristics.

The transactions that fall within this category may also need appropriations and/or borrowing for funding. Nonexchange revenue may also be collected in the form of fees and fines, not in relation to a contract, but in response to punitive actions. These additional types of funding should be captured in a proposed disclosure schedule. The Board approved the exchange revenue category.

Nonexchange revenue insurance programs category:
Nonexchange revenue programs collect money demanded by the government, such as dedicated taxes and regulated fees. Nonexchange transactions need to be tracked separately because they are not related to contracts and losses are only recognized when they occur. Therefore there will be no liability for losses on remaining coverage, only liabilities for unpaid claims. The Board approved the nonexchange revenue category.

Life insurance category:
Staff recommended life insurance as a separate category because: 1) life insurance has a different risk profile—death always occurs resulting in a payout, whereas an adverse event for exchange and nonexchange transactions might not occur, 2) SFFAS 5 already separates it out, and 3) there will be a liability on future policy benefits which is different than a liability for losses on remaining coverage. The Board approved the life insurance category.

The government-wide (GW) financial report:
In relation to the proposed disclosure schedules in each category, the Board wanted to know if staff will recommend the same detail at the GW level. Staff noted that only certain pieces will be proposed. Staff also acknowledged Treasury's comment that FASAB should only require information at the GW level that is required at the component level, and will address the GW standards once the standards for all of the categories have been addressed.

April 2015:

Staff continued to review the updated proposed insurance standards at the April 2015 Board meeting.

The Board approved the following items:

- The adverse event and IBNR definitions in order to clarify the recognition and measurement of claims incurred but not recorded (IBNR).
- The wording…"*Estimates should be based on … using all available information that existed at the balance sheet date, experience with previous transactions and historical trends, and, as appropriate, the views of independent experts…* in the recognition and measurement of the liability for losses on remaining coverage.

The Board identified the following changes:

- Liability for unpaid losses: provide more clarity about the timing of a series of events to address the recognition and measurement of IBNR.
- Liability for losses on remaining coverage:
    - Update subsequent event disclosure requirement in reference to SFFAS 39 because events that happen after the balance sheet are subsequent events that will not be recognized.
    - Remove expected cash flows as a single measurement model and replace it with wording such as…*probability assessments affected by trends to determine the most likely estimate, or, if a most likely estimate is not available, then use the expected cash flow method*.
    - Avoid using the word "contingency"—which will remain in SFFAS 5—because this liability is comparing the estimated losses to unearned premiums, whereas SFFAS 5 speaks only to liabilities.
- Premium pricing disclosure: remove the word subsidy and subsidy rate, reword, and provide an illustration.
- "Condensed" insurance program disclosure: reference disclosures that are already available in audited financial statements.
- Consolidated Financial Report disclosures: remove unearned premiums and gross claims and related earned revenue, and reword information about insurance in force.

February 2015:

The Board reviewed the proposed standards during the February 2015 meeting and approved the following:

Scope Section #2: add qualifying language to address accounting for such items as borrowing, investing, and appropriations that are found in other Statements to the new sentence—*Matters not addressed in this Statement should be reported in accordance with other standards*.

Criteria for Insurance Programs:

1. Include **a.i**. in the basis for conclusions.

2. Move **a.ii**. criteria as follows:
   - Exchange criteria is now included in the premiums definition,
   - Nonexchange will be presented in a future version,
   - Recoveries is now its own definition, and
   - Investment income and budget authority is included in the disclosure section.

3. Consolidating **a.iii – v** criteria into the insurance contract definition

Insurance Program Classifications: staff will conduct more research to identify and present classifications that will capture all current and future insurance programs.

Liability for Losses for Remaining Coverage: adopt the name Liability for Losses for Remaining Coverage instead of Liability for Premium Deficiency.

Disclosure for Breaking out Insurance Program Information:

- "Major" in relation to "*For each* ***major insurance program"*** is hard to define in relation to materiality,

- FASAB, as a standard setting body, cannot define "program," and "Major category of insurance," might work better.

- Staff will continue to work on what detail to include and at what level to report it for the component and consolidated financial report (CFR).

Revenue and Measurement: remove the word the word "liability" from unearned revenue.

Paragraph 16: change the word "billed" to "collected or due."

Paragraph 17: remove paragraph 17 because future adjustments to premiums based on experience ratings should be recognized as normal premium revenue over the contract period and is covered in paragraph 15.

Paragraph 18b: restate the second sentence to read: *Recoveries should* ***not*** *be recognized as revenue, but rather as reductions of claims expense.*

Paragraph 21: change the word "less" to "over:"

Paragraph 21 a & d: delete the word "probable" and focus on measuring liabilities using the expected value of estimated outflows net of remaining insurance coverage recognized at the end of the reporting period.

Paragraph 21.b: change 21.b. to read: *Management's judgment based on experience, and in some cases, the views of independent experts.*

Paragraph 21.e: remove a reference to a range because paragraph 21 will be rewritten to focus on the expected value and all numbers for expected value carry the same weight.

Paragraph 22: update paragraph 22 to read: *Adjustments to the liability for remaining insurance coverage should be recognized as losses* ***or gains*** *on remaining insurance coverage*.

Paragraph 23: include a brief description of the insurance programs similar to the standards for loan programs.

Paragraph 23.c: change "paid claims" to "payments."

December 2014:

Claims Adjustment Expenses: The Board approved including Claims Adjustment Expenses in the Liability for unpaid claims if they are related to claims.

Liability for Premium Deficiency/Net Future Losses: The Board approved including a Liability for Premium Deficiency in addition to the Liability for Unpaid Claims.

Additional Items:

The Board approved:

- Differentiating between insurance programs who receive appropriations to finance subsidies and those who borrow to finance subsidies,
- Classifying revenue for insurance programs that receive subsidies as exchange or non/exchange revenue, and
- Distinguishing between short-duration and long-duration insurance contracts.

October 2014:

Borrowing Disclosure: The Board decided to require insurance programs to disclose their borrowing authority, borrowing balances, interest expense, the ability to repay the borrowing, and explain any material differences in accordance with SFFAS 1, SFFAS 5, and SFFAS 7, but will not prescribe how or where the program will logistically place the disclosures.

Earned/Unearned Premiums: In relation to recognizing and disclosing earned and unearned premiums, the Board directed staff to begin with the revenue standards available in SFFAS 7, paragraphs 36–37, and include in the new standards guidance specific to insurance contracts but consistent with SFFAS 7.

Proposed Standard: In relation to the wording for the proposed standard, staff noted that the criteria for insurance programs will most probably be moved to the Basis for Conclusion section because it did not add anything to the insurance program definition.

The Board requested that staff:

- Rewrite paragraph 19 to allow for more flexibility in aggregating types of insurance programs
- Merge 19a and 19b in order to reduce duplicity and tie any explanations for material differences to the chart line items.
- Rewrite 19g to request a disclosure on how premium prices are determined and contribute to managing risk.

August 2014:

The Board approved changing the name of this phase to Risk Assumed: Insurance Programs.

The Board approved the following definition, criteria, and exclusions:

A. DEFINITION:

Insurance programs[1] are authorized by law to accept all or part of the risk for losses incurred by a designated population of beneficiaries as a result of an adverse event by financially compensating them.

B. CRITERIA:

- Insurance programs are administered by an agency established to do so or within an agency that administers many programs.

[1] Insurance programs will also include guarantee programs not designed for loan/debt guarantees.

- Insurance programs collect exchange or non-exchange revenue that may be earned through, but is not limited to, any or all of the following: premiums,[2] fees paid, excise taxes, penalties and/or fines, recoveries,[3] interest received from investments and/or receivables, and/or budget authority including appropriations and borrowing authority.[4]

- Insurance programs create an agreement[5] or arrangement that specifically states:
  - the role the program will play,
  - who the parties are that may contribute funding,
  - the designated population that may be beneficiaries and their responsibilities for receiving compensation for losses,[6]
  - funding requirements,
  - financial compensation to be paid,
  - the adverse event (other than a defaulted debt obligation), and
  - if and how much to place in reserves.
- Insurance programs assume risk for the uncertainty of an adverse event occurring (other than a defaulted debt obligation), and the amount of compensation expected to be paid for losses.

- Through insurance programs the federal government assumes:
  - 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 at the time claims are received and processed in anticipation that future funding sources will be sufficient to cover all or part of past benefits paid.

C. EXCLUSIONS:

a. Loan guarantee programs as defined in SFFAS 2 (as amended) are not included as insurance programs.

[2] The term “premiums” will be used to mean premiums, fees paid, excise taxes, penalties and/or fines.

[3] Recoveries may be monies recouped or recovered from: (1) another agency through an indemnification agreement, (2) a third party or commercial insurance company to repay all or part of a loss originally paid for by the program, and/or (3) the sale of salvageable parts through acquisition and disposal or salvage of assets. Recoveries may also be adjustments to already paid claims where the claimant owes money back to the program for a loss that wasn’t realized.

[4]Sources of funding are broad and the charging of “premiums” (or other fees) is not necessary for a program to qualify as an insurance program.

[5]Insurance programs may enter into explicit arrangements or agreements with specific individuals, state, local, or foreign governments, other federal agencies, or businesses to carry out their mission.

[6] Beneficiaries may or may not directly participate in an explicit agreement/arrangement prior to becoming eligible to receive compensation. An example where a beneficiary does directly participate and receives compensation is when a U.S. investor purchases risk insurance for political violence and upon an act of politic violence that impacts their business investment may receive compensation. An example where beneficiaries do not directly participate is when a service provider pays premiums directly to a federal insurance program and upon failure provides a list of customers as beneficiaries whom the program may compensate.

b. Social insurance programs as defined in SFFAS 17 (as amended) are not included as insurance programs.[7]

c. Disaster relief programs that provide discretionary funding, goods, and/or services are not included as insurance programs.[8]

d. Entitlement programs that administer eligibility requirement applications to provide means tested benefits are not included as insurance programs.

e. "Self-insurance," where the government assumes the risk of loss for some its own activities[9] is not included as insurance programs.

f. Programs whose missions are not by statute to provide insurance but which process claims through an administrative or judicial process[10] are not included as insurance programs.

g. Programs whose missions are not by statute to provide insurance but which provide security against loss or damage through contractual indemnification of another party[11] are not included as insurance programs.

Insurance in Force: The Board agreed to disclose insurance in force—the amount the program would pay out if all contracts experienced maximum loss for the remaining coverage at the end of the reporting period.

Projections: The Board tentatively agreed not to require projections for insurance programs. However, the Board did agree that the issue for projections would remain open, because they might want to address it for other types of programs in future phases of the risk assumed project.

April 2014

The Board revisited the definition and reviewed the similarities and differences with loan guarantee programs under the Federal Credit Reform Act and asked staff to address the following questions/concerns:

1) Distinguish insurance/non-loan guarantee programs from loan guarantee programs in the definition.
2) What value does the term "non-loan guarantees" add? Can it be removed from the definition?

[7] Includes unemployment insurance as this is captured also in SFFAS 17.
8Criteria updated due to discussion with Chairman Allen concerning funding that was provided to Washington State mud slide victims in addition to goods and services. In addition, it is the Stafford Act that authorizes and regulates disaster relief programs
[9] GAO, Catalogue of Federal Insurance Activities, GAO-05-265R, page 4.
[10] An example is an administrative settlement of tort claim resulting from military events.
[11] These are administrative settlements for transactions occurring by contractors with FAR authorized indemnification clauses or first responders within programs that do NOT have a statutory insurance or guarantee mission.

3) Clarify the exclusion of disaster relief programs in relation to the type of compensation provided.

March 2014:

The Board generally agreed with the insurance/non-loan guarantee definition, upon updates from Mr. Dacey, as well as the characteristics and exclusions presented in the staff memo with the understanding that as staff develops the standard and new information is discovered changes are possible and will be finalized within the standard.

Staff worked with Mr. Dacey to update some of his concerns with the definition.

The following is the revised definition:

> A federal insurance/non-loan guarantee program is a program authorized by law to accept all or part of the risk by financially compensating the designated population for losses incurred as a result of an adverse event as defined by the:
>
> A. law or otherwise enforceable by law,
>
> B. related regulations,
>
> C. agency policies, or
>
> D. explicit arrangements or agreements

December 2013:

1. The Board agreed with staff's recommendation that it would be difficult to apply the FASB proposed insurance contracts definition to federal insurance/guarantee programs
   - Board requested and Staff agreed to present FASB's proposed definition to the Task Force during the development of the federal definition
2. The Board agreed with Staff's next step to develop a general definition and specific characteristics of insurance and guarantee programs.

June 2013:

1. The Board agreed with staff's recommendation to ask the four federal entities identified to respond to specific questions on FASB's insurance contracts proposal. Staff would use those responses to identify application concerns that would be unique to a federal entity.

2. The Board agreed to further narrow the scope to federal insurance and guarantee **programs** rather than contracts to support the structure of the federal environment and president's budget.

February 2013:

The risk assumed project will be addressed in a **phased approach**:

- Phase I: Insurance and Guarantees
- Phase II: Entitlement Programs, including: national defense, security and disaster response; and other potential effects on future outflows, such as regulatory actions, GSE's, etc.
- Phase III: Commitments and Obligations and other risk areas