

1 **I. Recognition and Measurement for Estimated Losses on Remaining Coverage:**

2 Option 1: Direct Use of Expected Cash Flow If a Best Estimate is Not Feasible

3 23. Insurance programs should use all available information existing at the balance
4 sheet date, experience with previous transactions, trends, and, as appropriate,
5 the views of independent experts to estimate the amount necessary to settle
6 claims during the remaining open contract period.

7 24. The estimate should be the best estimate of the likely outcome. If no amount is a
8 better estimate than another, the expected cash flow method should be used.¹

9 Option 2: Either a Best Estimate or Expected Cash Flows Approach Based on Circumstances

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11 24. Insurance programs should use all available information existing at the balance
12 sheet date, experience with previous transactions, trends, and, as appropriate,
13 the views of independent experts to estimate the amount necessary to settle
14 claims during the remaining open contract period.

15 25. The estimate should be made using whichever of the following methods would
16 best represent the amount:

17 a. The most likely amount—the most likely amount is based on the likely
18 outcome from all possible outcomes, or

19 b. The expected cash flows—the expected cash flows is the sum of
20 probability weighted amounts in a range of possible amounts.

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¹ *The expected cash flow is the sum of probability-weighted amounts in a range of possible amounts.*

1 **NEW**

2 Option 2A: Either Expected Cash Flows Approach or Best Estimate Based on
3 Circumstances Utilizing FASB Language

4 24. An entity shall estimate the amount necessary to settle claims during the
5 remaining open contract period by using either of the following methods,
6 depending on which method will be the most appropriate in relation to all
7 available information existing at the balance sheet date, experience with
8 previous transactions, trends, and, as appropriate, the views of
9 independent experts:

10 a. The expected value which is the sum of probability-weighted
11 amounts in a range of possible settlement amounts. An expected value
12 may be an appropriate estimate of the amount to settle claims during
13 the remaining open contract period if an entity has a portfolio of
14 contracts with similar characteristics; or

15 b. The most likely amount which is the single most likely amount in a
16 range of possible settlement amounts (that is, the single most likely
17 outcome of the contract or a portfolio of contracts with similar
18 characteristics). The most likely amount may be an appropriate estimate
19 of the amount to settle claims during the remaining open contract period
20 if 1) the contract has only two possible outcomes (for example, an entity
21 must either settle a claim or not) or 2) a modelling technique other than
22 expected value—such as but not limited to a regression model— can
23 be applied to a portfolio of contracts with similar characteristics.

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1 Liability for Losses on Remaining Coverage:

2 **NEW TEXT**

3 Events or transactions that affect the basic information or RSI sometimes occur
4 subsequent to the end of the reporting period but before the financial report is issued
5 and are referred to as “subsequent events.” Some subsequent events (referred to as
6 recognized events) require adjustments while others (referred to as nonrecognized
7 events) do not require adjustments but may require disclosure in the basic
8 information or RSI. SFFAS 39, *Subsequent Events: Codification of Accounting and
9 Financial Reporting Standards Contained in the AICPA Statements on Auditing
10 Standards*, provides guidance regarding identification of recognized and
11 nonrecognized subsequent events as well as required disclosures.

12 For insurance programs, events occurring after the end of the reporting period are
13 subsequent events and should be evaluated against the guidance in SFFAS 39. For
14 example, settlement of claims after the end of the reporting period but relating to
15 adverse events that occurred prior to the end of the reporting period may provide
16 evidence that an amount different from the liability recorded in the accounts is
17 appropriate and would require adjustment of the basic information. In contrast,
18 adverse events about which no information existed at the balance sheet date may
19 not require adjustment of amounts recognized during the reporting period but may
20 require disclosure.

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25 SFFAS 39: Subsequent Events: Codification of Accounting and Financial Reporting
26 Standards Contained in the AICPA Statements on Auditing Standards, paragraphs:

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Subsequent Events

- 30 11. Events or transactions that affect the basic information or RSI sometimes occur
31 subsequent to the end of the reporting period but before the financial report is
32 issued. Some of those transactions and events (referred to as recognized
33 events) require adjustments while others (referred to as nonrecognized events)
34 may require disclosure in the basic information or RSI.
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- 36 12. Recognized events consist of those events that provide additional evidence with
37 respect to conditions that existed at the end of the reporting period and affect the
38 estimates inherent in the process of preparing basic information and RSI. In
39 evaluating the conditions on which the estimates were based, all information that
40 becomes available prior to the issuance of the financial report should be used.
41 The basic information or RSI as applicable should be adjusted for any changes in
42 estimates resulting from the use of such evidence.

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2 13. Identifying recognized events calls for the exercise of professional judgment and
3 knowledge of the facts and circumstances. The receipt of information regarding
4 the impairment of an asset or the incurrence of a liability subsequent to the end
5 of the reporting period may be indicative of conditions existing at the end of the
6 reporting period, thereby calling for adjustment of the basic information or RSI
7 before the issuance of the financial report. For example, the settlement of
8 litigation for an amount different from the liability recorded in the accounts would
9 require adjustment of the basic information if the event that gave rise to the
10 litigation, such as a personal injury occurring on government property, had taken
11 place prior to the end of the reporting period. In this example, the resolution of an
12 uncertainty may confirm the impairment of an asset or incurrence of a liability as
13 of the end of the reporting period.
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- 15 14. Subsequent events affecting the realization of assets such as receivables and
16 inventories or the settlement of estimated liabilities will ordinarily require
17 adjustment of the basic information or RSI because such events typically
18 represent the culmination of conditions that existed over a relatively long period
19 of time.
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- 21 15. Nonrecognized events consist of those events that provide evidence with respect
22 to conditions that did not exist at the end of the reporting period, but arose
23 subsequent to that date. These events should not result in adjustment of the
24 basic information or RSI. Some of these events, however, may be of such a
25 nature that their disclosure in basic information or RSI is required to keep the
26 basic information or RSI from being misleading. Subsequent events such as
27 changes in the quoted market prices of securities ordinarily should not result in
28 adjustment of the basic information or RSI because such changes typically reflect
29 a concurrent evaluation of new conditions.
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- 31 16. Examples of nonrecognized events that may require disclosure in basic
32 information or RSI, but should not result in adjustment, include the enactment of
33 legislation, after the end of the reporting period, to establish a major federal
34 program or an appropriation to provide benefits or services to protect the public's
35 health and safety during a major disaster that occurred after the end of the
36 reporting period but before the financial report is issued. The disclosures should
37 concern matters that will probably affect the judgments and decisions of those
38 relying on the financial report.
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PROPOSED UPDATED DISCLOSURES

**EXCHANGE REVENUE INSURANCE PROGRAMS
OTHER THAN LIFE INSURANCE**

COMPONENT REPORTING ENTITY DISCLOSURE REQUIREMENTS

- 26.** The following information should be provided for insurance portfolios selected for disaggregated disclosure, and/or aggregated for all remaining insurance portfolios, and/or insurance contracts for:
 - a. Total Gross Cost including the following components:
 - i. Claims expense
 - ii. Claims adjustment expense
 - iii. Recoveries
 - iv. Interest expense
 - v. Losses or gains on remaining coverage
 - vi. Other gross costs
 - b. Earned Revenue including premiums earned and interest earned
 - c. Net cost
 - d. Change in net position including nonexchange revenue, appropriations used, and other financing sources

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ILLUSTRATION I: Exchange Revenue Insurance Program Disclosure

	FY 2XX1	FY 2XX0
Net Position, beginning of Period	\$XXX	\$XXX
Gross cost of:		
Claims expense	(XXX)	(XXX)
Claims adjustment expenses	(XXX)	(XXX)
Recoveries	XXX	XXX
Interest expense	(XXX)	(XXX)
Losses on remaining coverage	(XXX)	(XXX)
Other gross costs	(XXX)	(XXX)
Total gross costs	(\$XXX)	(\$XXX)
Exchange Revenue:		
Premiums earned	XXX	XXX
Interest earned	XXX	XXX
Net Cost	(\$XXX)	(\$XXX)
Nonexchange revenue	XXX	XXX
Appropriations used	XXX	XXX
Other financing sources	XXX	XXX
Change in net position, end of period	\$XXX	\$XXX

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NONEXCHANGE REVENUE INSURANCE PROGRAMS

COMPONENT REPORTING ENTITY DISCLOSURE REQUIREMENTS

41. The following information should be provided for insurance portfolios selected for disaggregated disclosure, and/or aggregated for all remaining insurance portfolios:

- a. Total Gross cost including the following components:
 - i. Claims expense
 - ii. Claims adjustment expense
 - iii. Recoveries
 - iv. Interest expense
 - v. Losses or gains on remaining coverage
 - vi. Other gross costs
- b. Change in net position including nonexchange revenue, appropriations used, and other financing sources

ILLUSTRATION II: Nonexchange Revenue Insurance Program Disclosure

	FY 2XX1	FY 2XX0
Net Position, beginning of Period	\$XXX	\$XXX
Gross cost of:		
Claims expense	(XXX)	(XXX)
Claims adjustment expenses	(XXX)	(XXX)
Recoveries	XXX	XXX
Interest expense	(XXX)	(XXX)
Losses on remaining coverage	(XXX)	(XXX)
Other gross costs	(XXX)	(XXX)
Total gross costs	(\$XXX)	(\$XXX)
Nonexchange revenue	XXX	XXX
Appropriations used	XXX	XXX
Other financing sources	XXX	XXX
Change in net position, end of period	\$XXX	\$XXX