Federal Accounting Standards Advisory Board

October 9, 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 F**[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
- Attachments:
  - Attachment I: **Marked version** of the Risk Assumed-Insurance Programs Draft ED.
  - Attachment II: Current FASB Disclosure examples: Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - *Proposed Accounting Standards Update* Issued: April 22, 2015

Appendix A: Risk Assumed - Project Decision History and Milestones (Optional Reading for Reference)

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[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 August 2015 Board meeting, the Board continued to review the proposed insurance standards for risk assumed. The following items were discussed:

I. Category Titles:

Staff recommended that the Board update the risk assumed-insurance program titles by replacing the word "revenue" with the word "transaction" because 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. Proposed Standards for Life Insurance Programs:

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 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 requirements,
- 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 structure.

B. Address Short- and Long-Duration Contracts

The Board asked staff to provide additional information to ensure adequate guidance to recognize, measure, and disclose:

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.

STAFF ANALYSIS AND RECOMMENDATIONS FOR PROPOSED STANDARDS

I. Approve Updated Language for Liability for Losses on Remaining Coverage

Staff Analysis and Recommendation:

In June 2015 the Board voted to require expected value first and then the most likely amount or other method, such as a regression model, in the event that expected value is **not feasible or appropriate**. However, the Board requested that staff use more definitive language. In August 2015, Mr. Dacey noted that these standards appeared to only address short-duration contracts and should also capture future losses for long-duration contracts. With further review, we determined that it was not clear that all the cash flows—both future premiums and claims—should be included in estimating losses on remaining coverage. To resolve this, staff worked with Mr. Dacey to provide the following proposed standards:

LIABILITY FOR LOSSES ON REMAINING COVERAGE

29. 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 related unearned premiums as of the end of the reporting period and **future premiums to be collected** for the remaining open contract period. **If material, estimated future claims and premiums should be discounted.**

30. Estimates should be determined by considering groups of contracts rather than individual contracts according to similar characteristics and **contract duration**.

31. 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.

Question 1.a: Does the Board approve the updated standards for the liability for losses on remaining coverage?

Staff also worked with Mr. Dacey on the standard for choosing an alternative method of estimation and came up with the following options:

32.a. An entity may use a method other than expected value, such as a regression model or most likely amount, if the method is expected to provide a **more reasonable estimate of 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.

32.b. An entity may use a method other than expected value, such as a regression model or most likely amount, if the method is expected to provide a **reasonable estimate of 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.

32.c. 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.

Staff has provided three options for determining an alternative method for estimating the losses on remaining coverage. 31.a. includes the term "a **more** reasonable estimate of the amount to be paid;" 31.b removes the term "**more**;" and 31.c.instead includes the term "if **the expected value is not feasible or appropriate** to estimate the amount to be paid," which was suggested by members at the June 2015 meeting.

- The use of the word "**more**" in 31.a. concerns staff in that the agency may have to produce an estimate using the expected value **and** an alternative method to prove to the auditor that the alternative method is a "more reasonable estimate." This may be burdensome and timely, requiring significant experience with both methods to resolve.

- Mr. Dacey suggested that staff consider removing "more" from option 31.a. This would permit the preparer to select a suitable alternative method that produces a reasonable estimate of the settlement amount as shown in 31.b. This option does not clearly state why an agency would or should choose an alternative method of estimation.

- Staff prefers option 31.c. because it clearly states why an alternative method is necessary and may unburden the agency by allowing them only to explain to an auditor why the expected value is "not feasible or appropriate."

Question 1.b.: Which option does the Board approve for the alternative method: 31.a, 31.b, or 31.c?

II. <u>Approve Streamlined Disclosures:</u>

Staff Analysis:

During the August 2015 meeting, the Board requested that staff streamline disclosures to include subjective language, avoid check lists and, where possible, refer to other disclosures. The Board also requested that staff review FASB's Disclosure Framework project to determine if FASAB can incorporate any updates.

Staff reviewed the following information:

A. The FASB Exposure Draft, *Proposed Accounting Standards Update, Notes to the Financial Statements (Topic 235).* issued September 24, 2015, with comments due December 8, 2015. (A copy is available in the front of the binder)

FASB included the following objective:

> *The objective and primary focus of the disclosure framework project iare to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally acceptable accounting principles (GAAP) that is most important to users of each entity's financial statements.*
>
> *Achieving the objective of improving effectiveness will require development of a framework that promotes consistent decisions about disclosure requirements by the Board and the appropriate exercise of discretion by reporting entities.*

The amendments to Topic 235 in this proposal would:

> *1. State that materiality is applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements taken as a whole; therefore, some, all, or none of the requirements in a disclosure Section may be material*
>
> *2. Refer to materiality as a legal concept*
>
> *3. State specifically that an omission of immaterial information is not an accounting error.*

Stakeholders also noted inconsistencies between promoting discretion and the way in which disclosure requirements are written. To be consistent with the amendments in this proposed Update, FASB is proposing to make the following changes to existing disclosure requirements in each disclosure Section within the Accounting Standards Codification:

> *1. Each Accounting Standards Codification Topic would state that an entity shall provide required disclosures if they are material.*

2. Each disclosure Section would refer readers to Topic 235, Notes to Financial Statements, as amended by this proposed Update, for discussion of the appropriate exercise of discretion.

3. Existing phrases like "an entity shall at a minimum provide," which may make it difficult to justify omitting immaterial disclosures, would be replaced with less prescriptive language.

B. Staff also reviewed recently published FASB exposure drafts for disclosure structure and wording that might help with this streamling effort. See Attachment II: *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Proposed Accounting Standards Update Issued: April 22, 2015*. Please pay particular attention to the highlighted areas and staff comments.

Staff Recommendation

Utilizing the above information, staff made the following changes to streamline disclosures for the exchange transaction insurance programs other than life insurance category (as a baseline for the other two categories):

1. Added sub-sections: *Factors in Determining Disclosures* and *Disclosure Requirements* modeled after Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity* (pages 21-22).

2. Captured Information about grouping portfolios only in the *Factors in Determining Disclosures* section; staff removed this language from individual disclosures.

3. Added information on referencing other notes in the GPFFR in the *Factors in Determining Disclosures section;* removed this language from specific disclosures in the *Disclosure Requirements* section.

4. Reduced the list of items to disclose by incorporating individual items into other disclosures where possible.

Streamlined Disclosures as Presented in October 2015

Component Reporting Entity Disclosure Requirements

Factors in Determining Disclosures

36. Materiality is an overarching consideration in financial reporting for information that should be presented regarding exchange transaction insurance programs other than life insurance. Beyond materiality, the following factors should be considered in making judgments about the extent of appropriate disclosures:

a. **Relevance to reporting objectives—**Significance of the information to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*. In particular, this would include the significance of the information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives with regard to the insurance program.

b. **Selecting insurance portfolios—**Specific information should be disclosed for selected insurance portfolios,[2] and/or in aggregate for all remaining insurance portfolios, and/or insurance contracts. Selecting insurance portfolios to be presented individually requires judgment. Quantitative and qualitative criteria should be considered in selecting individual portfolios for disaggregated disclosure.

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

c. **Nature and magnitude of the potential risks/exposures of the insurance program—**Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to risk of loss related to adverse events managed by the insurance program.

d. **Disclosures should be integrated so that concise, meaningful, and transparent information is provided—**Integration is accomplished by providing a single comprehensive note regarding the insurance program and related balances, or by incorporating references to relevant notes elsewhere in the GPFFR but which relate to the insurance program.

Disclosure Requirements

37. 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. Contract duration and renewal characteristics such as non-cancelable or guaranteed renewals.

   c. 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.

[2] 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.

d. 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.

e. The amount of coverage provided through insurance in force at the end of the reporting period which represents the maximum risk exposure during for the remaining contract period, and appropriate information to aid in avoiding the misleading inference that there is a more than remote likelihood of a loss of that amount.

f. 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.

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

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. Revenue including premiums and interest earned
c. Net cost
d. Change in net position including nonexchange revenue, appropriations used, and other financing sources

39. Information for changes in the liability balance for <u>unpaid insurance claims</u> should be provided as follows:

a. Beginning balance
b. Incurred claims attributable to insured adverse events of:
   i. the current fiscal year, and
   ii. prior fiscal years
c. Payments attributable to insured adverse events of:
   i. the current fiscal year, and
   ii. prior fiscal years
d. Recoveries and other adjustments
e. Ending balance

Question II – Does the Board approve the streamlined disclosures?

III. Address Short- and Long-Duration Contracts

During the August 2015 meeting the Board asked staff to provide additional information to ensure adequate guidance to recognize, measure, and disclose:

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.

Staff Analysis and Recommendation

Staff worked with Mr. Dacey to provide adequate guidance to capture long-duration contracts in the liability for losses on remaining coverage. Please see Section II (pages 7-8) for the proposed standards.

Life Insurance – Liability for Future Benefits

In relation to life insurance, Mr. Dacey was concerned about the renewal characteristics of term insurance noting that they may operate like short-duration contracts with annual renewals.

In order to confirm this, staff worked with the life insurance task force members at VA and OPM to understand how they determined contract duration for term life insurance. VA noted that "there are no short-duration contracts; all of (their) administered insurance [the products that VA manages], including term, has a lifetime contract period (long duration)." Therefore, staff determined, and Mr. Dacey agreed, that existing life insurance programs are all treated as long-duration contracts.

As a result, staff retained the original wording approved at the August 2015 meeting for the liability for future policy benefits and only added the words "contract duration" for consistency with the exchange category.

52. 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.

53. Estimates should be determined by considering groups of contracts rather than individual contracts according to similar characteristics and **contract duration**.

Mr. Dacey requested that staff include in the basis for conclusions that the recognition/reporting requirements for life insurance are consistent with current practice for existing life insurance programs, including term insurance, which reflect the nature of long-duration contracts

Question III – Does the Board approve the updated language for the liability for future benefits?

QUESTIONS FOR THE BOARD:

Question 1.a.: Does the Board approve the updated language for the liability for losses on remaining coverage?

Question 1.b: Which option does the Board approve for the alternative method, 31.a., 31.b., or 31.c?

Question II: Does the Board approve the streamlined disclosures?

Question III: Does the Board approve the updated language for the liability for future benefits?

NEXT STEPS

Present the exposure draft at the December 2015 meeting for pre-ballot.

Per the Board Meeting Process: members **should inform staff as soon as possible in writing** [prior to the December 2015 meeting] 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 F– Attachment I

Insurance Programs

– Marked –

Proposed Exposure Draft

October 2015

Federal Accounting Standards Advisory Board

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 appear 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. The government creates insurance programs in order to manage the risk of loss for certain adverse events that may have detrimental impacts on the economic health of the United States and its citizens that commercial providers are not willing or able to cover.

This Statement would provide a comprehensive set of definitions of terms relating to insurance programs. The definitions could help to identify and classify insurance programs and related financial activities.

This Statement would provide guidance for how and when insurance programs should recognize revenue and expenses. Guidance would provide for how to estimate losses for remaining coverage when contracts provide coverage after the reporting date. This Statement provides updated disclosure guidance to encourage concise, meaningful, and transparent information to help the reader understand the potential operational or financial impact, regarding exposures to risk of loss related to adverse events that are managed by the insurance program. 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.

TABLE OF CONTENTS

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. 8) 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 your reasons.

Q2. Additional new terms were introduced (par. 9 – 23) in order to provide a concise set of definitions for insurance programs to produce consistent reporting.

Do you agree or disagree that the additional terms provide a concise set of definitions that will assist insurance programs in producing consistent reporting? Please provide your reasons.

Q3. Insurance Programs are to report in one of the three categories defined in par.14, 20 and 21.

Do you agree or disagree with these categories? Please provide your reasons.

Q4. Exchange transaction programs other than life insurance are required to recognize a liability for losses on remaining coverage (par. 29 – 32). This liability has been separated out 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 value model to estimate these future losses; and, if that is not feasible, then a regression model or most likely amount may be used.

Do you agree or disagree that the liability for losses and the measurement models will improve estimation for losses on remaining coverage? Please provide your reasons.

Q5. Do you agree or disagree with the disclosures for the exchange transaction insurance programs other than life insurance in par. 37-39? Please provide your reasons.

Q6. Do you agree or disagree with the disclosures for the nonexchange insurance programs in par. 45-47? Please provide your reasons.

Q7. Do you agree or disagree with the disclosures for the life insurance programs? Please provide your reasons.

Q8. Illustrations are provided for disclosures in Appendix A.

Do you find these illustrations helpful? Please provide your reasons for why or why not?

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 are complete and provide 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.

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

DEFINITIONS

Definitions in paragraphs 8-23 are presented within the standards because they are new terms intended to have a specific meaning when applying the standards.

8. **Insurance program**—"Insurance program"[1] 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.

Comment [RG1]: Staff updated definition of insurance program to conform with definition of insurance contract. Any comments?

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9. The following are excluded from Insurance Programs:

   a. Programs that administer direct loans and loan guarantees[2]

   b. Programs that qualify as social insurance[3]

   c. Programs authorized to engage in disaster relief activities[4]

   d. Entitlement programs[5]

[1] An insurance program is hereinafter referred to as either insurance program or program

[2] Programs identified in SFFAS 2: *Accounting for Direct Loans and Loan Guarantees*

[3] Programs identified in SFFAS 1: *Accounting for Social Insurance* including unemployment insurance.

[4] 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.

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

e. Programs that self-insure their own activities, but whose missions are not by statute to provide insurance[6]

f. Programs that process claims through an administrative or judicial process, but whose missions are not by statute to provide insurance[7]

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[8]

10. **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.

11. **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.

    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.

12. **Contract period**—"Contract period" is the period over which adverse events that occur are covered.

13. **Exchange Transaction Insurance Programs Other Than Life Insurance** —"Exchange 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, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.*

14. **In Force**—"In force" refers to contracts that are unexpired as of a given date.

15. **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.

16. **Insurance claim**—an "insurance claim" is a formal request for payment for losses as authorized under the insurance contract.

17. **Insurance contract (contract)**— An "insurance contract (contract)" is a general term used for an explicit insurance or non-loan guarantee agreement or arrangement between

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

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

[8] 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.

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.

18. **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.

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

20. **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**.**

21. **Premiums**— "Premiums" is a general term used to refer to exchange revenue[9] billed by insurance programs. Programs may refer to their exchange revenue by various terms including but not limited to premiums, assessments, and/or fees.

22. **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

[9] 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 for exchange revenue insurance programs.

RECOGNITION AND MEASUREMENT

REVENUE AND LIABILITY FOR UNEARNED PREMIUMS

23. Premiums should be recognized as revenue evenly over the contract period.

24. 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

25. 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.

26. 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.[10]
            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.[11]
        ii. Recoveries should be recognized as reductions of claims, rather than as revenue.

27. 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

[10] 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.

[11] 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.

28. 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 related unearned premiums as of the end of the reporting period and future premiums to be collected for the remaining open contract period.

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

30. 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.

Options for #32 – Alternative Method for Estimating Losses:

32.a. An entity may use a method other than expected value, such as a regression model or most likely amount, if the method is expected to provide a **more reasonable estimate of 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.

32.b. An entity may use a method other than expected value, such as a regression model or most likely amount, if the method is expected to provide a **reasonable estimate of 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.

32.c. 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.

31.

32. 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.)

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

Deleted: <#>A liability for losses on remaining coverage should be recognized if the estimated amount to settle claims for the remaining open contract period, is greater than the related unearned premiums as of the end of the reporting period. ¶
<#>Estimates should be determined by considering groups of contracts rather than individual contracts, when feasible.ould methods¶

SUBSEQUENT EVENTS

Comment [RG2]: Added new sub-section to distinguish subsequent events from liability for losses on remaining coverage.

34. 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, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statement on Auditing Standards.* par.15.

DISCLOSURES

Factors in Determining Disclosures

35. Materiality is an overarching consideration in financial reporting for information that should be presented regarding exchange transaction insurance programs other than life insurance. Beyond materiality, the following factors should be considered in making judgments about the extent of appropriate disclosures:

   a. **Relevance to reporting objectives—**Significance of the information to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*. In particular, this would include the significance of the information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives with regard to the insurance program.

   b. Specific information should be disclosed for selected insurance portfolios,[12] and/or in aggregate for all remaining insurance portfolios, and/or insurance contracts. Selecting insurance portfolios to be presented individually requires judgment. Quantitative and qualitative criteria should be considered in selecting individual portfolios for disaggregated disclosure.

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

   c. **Nature and magnitude of the potential risks/exposures** of the insurance program—Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to risk of loss related to adverse events that are managed by 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.

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

Disclosure Requirements

36. 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. Contract duration and renewal characteristics such as non-cancelable or guaranteed renewals.

c. 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.

d. 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.

e. The amount of coverage provided through insurance in force at the end of the reporting period which represents the maximum risk exposure during for the remaining contract period, and appropriate information to aid in avoiding the misleading inference that there is a more than remote likelihood of a loss of that amount.

f. 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.

Deleted: *To avoid duplication of disclosures and reduce an agency's reporting burden, the GPFFR may reference another* ***section of the GPFFR*** *or another* ***public*** *document and* ***(by providing)*** *provide a viable link. If all of the required information is not provided in the referenced public document, then additional information should be provided to fully meet the standards.¶*

Deleted: ¶

Deleted: The following information should be provided for

Deleted: insurance portfolios selected for disaggregated disclosure, and/or aggregated for all remaining insurance portfolios, and/or insurance contracts for

Deleted: A description of what

Comment [RG3]: Sources of revenue captured in disclosure 36

Deleted: A narrative description of the sources of revenue

Deleted: , such as premiums received from insureds, non-exchange revenue such as fines or fees, and/or appropriations¶
Renewal characteristics such as non-cancelable or guaranteed renewals

Deleted: A discussion about the liability for losses on remaining coverage to include information that will provide an understanding of the

Moved (insertion) [1]

Comment [RG4]: Subsequent events discussion captured in disclosure 29

Deleted: <#> nature and magnitude of uncertainty in calculating the **liability for losses on remaining coverage**, basis and methods, trend information, and risk assumptions and factors used in determining the estimated settlement costs.¶
Subsequent events. (See SFFAS 39, par. 15 for guidance on non-recognized subsequent events)

Moved up [1]: Any additional information that would provide an understanding of the nature and magnitude of uncertainty in calculating the liability for losses on remaining coverage.

Deleted: The amount of coverage provided through insurance in force at the end of the reporting period, includinga narrative discussion that this amount

Comment [RG5]: Investment activities will be disclosed in 36

Deleted: ¶
<#>A narrative discussion consolidated for all insurance portfolios—or a reference to one to avoid duplication of disclosures—should be provided ¶ ... [1]

Deleted: required disclosures

37. Insurance programs should describe their funding sources, investing and borrowing activities, and the ability to repay borrowing. Programs also should provide the following information:[13]

Deleted: that engage in investment activities, receive appropriations, or other financing sources to pay for insurance claims

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. Revenue including premiums and interest earned
c. Net cost
d. Change in net position including nonexchange revenue, appropriations used, and other financing sources

Deleted: <#>Gross cost:¶
<#>Claims expense¶
<#>Claims adjustment expense¶
<#>Recoveries¶
<#>Interest expense¶
<#>Losses or gains on remaining coverage¶
<#>Other gross costs¶
<#>Total gross cost¶
<#>Earned Revenue¶
<#>Premiums earned¶
<#>Interest earned¶
<#>Total Earned Revenue¶
<#>Net cost¶
<#>Nonexchange revenue ¶
<#>Appropriations used¶
<#>Other financing sources¶
<#>Change in net position¶

38. Information for changes in the liability balance for unpaid insurance claims[14] should be provided as follows:

Deleted: for insurance portfolios selected for disaggregated disclosure, and/or aggregated for all remaining insurance portfolios, and/or insurance contracts

a. Beginning balance
b. Incurred claims attributable to insured adverse events of:
   i. the current fiscal year, and
   ii. prior fiscal years
c. Payments attributable to insured adverse events of:
   i. the current fiscal year, and
   ii. prior fiscal years
d. Recoveries and other adjustments
e. Ending balance

[13] See Illustration I for an example.

[14] See illustration I for an example

RECOGNITION AND MEASUREMENT

REVENUE

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

LIABILITY FOR UNPAID INSURANCE CLAIMS

39. 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.

40. 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.[15]
            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.[16]
        iv. Recoveries should be recognized as reductions of claims, rather than as revenue.

41. 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.

SUBSEQUENT EVENTS

42. 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

Deleted: group of contracts

Comment [RG6]: Added new sub-section for consistency with exchange category.

[15] 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.
[16] Any amount expected to be recovered in excess of the recognized claim, which will result in a gain, should not be recognized until any contingencies relating to the recovery have been resolved because a contingent gain cannot be recognized until realized.

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.

DISCLOSURES

Factors in Determining Disclosures

43. Materiality is an overarching consideration in financial reporting for information that should be presented regarding **nonexchange transaction insurance programs**. Beyond materiality, the following factors should be considered in making judgments about the extent of appropriate disclosures:

  a. **Relevance to reporting objectives—**Significance of the information to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*. In particular, this would include the significance of the information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives with regard to the insurance program.

  b. Specific information should be disclosed for selected insurance portfolios,[17] and/or in aggregate for all remaining insurance portfolios, and/or insurance claims. Selecting insurance portfolios to be presented individually requires judgment. Quantitative and qualitative criteria should be considered in selecting individual portfolios for disaggregated disclosure.

    iii. Acceptable quantitative criteria may include whether certain groups of claims are accumulating large claim expenses or unpaid claim liability balances.

    iv. Acceptable qualitative factors may include whether a group of claims is of immediate concern to constituents, politically sensitive, and/or controversial.

  c. **Nature and magnitude of the potential risks/exposures** of the insurance program—Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to risk of loss related to adverse events that are managed by the insurance program.

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

17 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.

Disclosure Requirements

44. 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. 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.

45. Insurance programs should describe their funding sources, investing and borrowing activities, and the ability to repay borrowing. Programs also should provide the following information:[18]

a. Total Gross cost including the following components:

i. Claims expense
ii. Claims adjustment expense
iii. Recoveries
iv. Interest expense
v. Other gross costs

b. Change in net position including nonexchange revenue, appropriations used, and other financing sources

46. Information for changes in the liability balance for unpaid insurance claims[19] should be provided as follows:

a. Beginning balance
b. Incurred claims attributable to insured adverse events of:
   i. the current fiscal year, and
   ii. prior fiscal years
c. Payments attributable to insured adverse events of:
   i. the current fiscal year, and
   ii. prior fiscal years
d. Recoveries and other adjustments
e. Ending balance

Deleted: <#>Specific information should be disclosed for selected insurance portfolios, and/or in aggregate for all remaining insurance portfolios, and/or insurance contracts. Selecting insurance portfolios to be presented individually requires judgment. Quantitative and qualitative criteria should be considered in selecting individual portfolios for disaggregated disclosure. ¶
<#>Acceptable quantitative criteria 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.¶

Deleted: 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:¶
A description of w

Deleted: A narrative description of nonexchange revenue collected, if it covers the full estimated costs to settle claims, and, whether other funding sources, such as appropriations, are needed

Deleted: The following information

Deleted: should be provided for insurance portfolios selected for disaggregated disclosure,and/or aggregated for all remaining insurance portfolios, and/or insurance contracts to fund insurance claims

Deleted: 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:¶

Deleted: Gross cost:¶
Claims expense¶
Claims adjustment expense¶
Recoveries¶
Interest expense¶
Losses or gains on remaining coverage¶
Other gross costs¶
Total Gross Cost:¶
Nonexchange revenue ¶
Appropriations used¶
Other financing sources¶
Change in net position¶
¶
¶
¶

Deleted: for insurance portfolios selected for disaggregated disclosure, and/or aggregated for all remaining insurance portfolios, and/or insurance contracts

18 See Illustration III for an example
19 See illustration I for an example

Deleted: <#>A narrative discussion consolidated for all insurance portfolios—or a reference to one to avoid duplication of disclosures—should be provided for:¶
<#>borrowing authority including but not limited to: balances, interest expense, repayment requirements, the ability to repay borrowing used to fund insurance claims, financing sources for repayment, and other terms of borrowing authority used in accordance to already existing standards.¶
<#>investment activities,¶
<#>appropriations requested, used, and/or available to return to Treasury, and¶
<#>any event(s) that caused a material change in the required disclosures, such as low probability high impact adverse events, changes in laws and/or actuarial assumptions.¶

LIFE INSURANCE PROGRAMS

RECOGNITION AND MEASUREMENT

REVENUE

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

LIABILITY FOR UNPAID INSURANCE CLAIMS

48. 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 recorded at the estimated settlement amount.

49. 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.[20]
      ii. Recoveries should be recognized as reductions of claims, rather than as revenue.

50. 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 FUTURE POLICY BENEFITS

51. 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.

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

[20] 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.

53. 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)

Deleted: For requirements regarding actuarial gains and losses s

54. 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.

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

SUBSEQUENT EVENTS

Comment [RG7]: Added new sub-section for consistency with other two sections.

56. 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.

DISCLOSURES

Factors in Determining Disclosures

Comment [RG8]: Add subsections

Deleted: <#>Estimates should be determined by considering groups of contracts rather than individual contracts, when feasible.¶

57. Materiality is an overarching consideration in financial reporting for information that should be presented regarding life insurance programs. Beyond materiality, the following factors should be considered in making judgments about the extent of appropriate disclosures:

    a. **Relevance to reporting objectives—**Significance of the information to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*. In particular, this would include the significance of the information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives with regard to the insurance program.

    b. Specific information should be disclosed for selected insurance portfolios,[21] and/or in aggregate for all remaining insurance portfolios, and/or insurance contracts. Selecting insurance portfolios to be presented individually requires judgment. Quantitative and qualitative criteria should be considered in selecting individual portfolios for disaggregated disclosure.

        v. Acceptable quantitative criteria may include whether certain groups of contracts are accumulating large claim expenses or unpaid claim liability balances.

[21] 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.

vi. Acceptable qualitative factors may include whether a group of contracts is of immediate concern to constituents, politically sensitive, and/or controversial.

c. **Nature and magnitude of the potential risks/exposures** of the insurance program—Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to risk of loss related to adverse events that are managed by the insurance program.

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

Disclosure Requirements

58. 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 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.

d. The total value of life insurance policies issued—insurance in force—at the end of the reporting period and appropriate information to aid in avoiding the misleading inference that there is a more than remote likelihood of a loss of that amount.

e. 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.

f. 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.

Deleted: <#>Specific information should be disclosed for selected insurance portfolios and/or in aggregate for all remaining insurance portfolios, and/or insurance contracts. Selecting insurance portfolios to be presented individually requires judgment. Quantitative and qualitative criteria should be considered in selecting individual portfolios for disaggregated disclosure. ¶
<#>Acceptable quantitative criteria 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.¶
<#> :¶

Deleted: .¶
A description of other government

Deleted: <#>A narrative description of the sources of revenue, such as premiums received from insureds, interest received from investments, nonexchange revenue such as fines or fees, and whether other funding sources such as appropriations are needed.¶

Deleted: to include

Deleted: le dividends, how it was determined that dividends are available, and dividends paid.¶
<#>A discussion about the liability for future policy benefits to include:¶
T

Deleted: expected present value of

Deleted: The amount of coverage provided through

Deleted: , including a discussion that this amount represents the total value of life insurance policies issued.

Deleted: A discussion about the

Deleted: to include

Deleted: :¶
<#>the number of policies cancelled during the reporting period; ¶
<#>the total number of loans outstanding; and¶
<#>a schedule to include beginning balance, amount disbursed for cancelled policies, interest earned, total amount of loans outstanding and accrued interest due that reduces the cash surrender value, and ending balance . ¶

Deleted: <#>A narrative discussion consolidated for all insurance portfolios—or a reference to one to avoid duplication of disclosures—should be provided for:¶

59. Insurance programs should describe their funding sources, investing and borrowing activities, and the ability to repay borrowing. Programs also should provide the following information:[22]

a. Total Gross Cost including the following components:

vii. Claims expense
viii. Claims adjustment expense
ix. Recoveries
x. Interest expense
xi. Losses or gains on remaining coverage
xii. Other gross costs

b. Earned Revenue including premiums earned and interest earned
c. Net cost
d. (Gain)/loss on assumption changes[23]
e. Change in net position including nonexchange revenue, appropriations used, and other financing sources

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

a. Beginning balance
b. Incurred claims attributable to insured adverse events of:
   i. the current fiscal year, and
   ii. prior fiscal years
c. Payments attributable to insured adverse events of:
   i. the current fiscal year, and
   ii. prior fiscal years
d. Recoveries and other adjustments
e. Ending balance

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

Deleted: <#>A narrative discussion about the items included in the liability for unpaid insurance claims to include: ¶
<#>The basis and methods, trend information, and risk assumptions and factors used in determining the IBNR and expected recoveries.any additional information that would provide an understanding of the nature and magnitude of uncertainty in calculating the IBNR.¶

Deleted: for insurance portfolios selected for disaggregated disclosure, and/or aggregated for all remaining insurance portfolios, and/or insurance contracts

[22] See Illustration III for an example
[23] In accordance with SFFAS 33, par.19-23

FINANCIAL REPORT OF THE US GOVERNMENT DISCLOSURES

61. The U.S. government-wide financial statements should disclose the following information separately for exchange, nonexchange, and life insurance programs:[24]

   a. a broad description of each category and the included insurance programs,
   b. a general reference to component reporting entity[25] reports, and
   c. balances for each of the following, including detail for each significant individual insurance program:
      i. liability for unpaid claims,
      ii. liability for losses on remaining coverage,
      iii. liability for future benefits,
      iv. total net cost for all insurance programs,
      v. a narrative discussion of programs' ability or inability to repay any borrowing, and
      vi. 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.

EFFECTIVE DATE

62. The requirements of this Statement are effective for reporting periods beginning after **September 30, 20YY**.

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

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

[25] 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 are complete and provide guidance for consistent reporting.

A3. Project goals are to:

a. Define federal insurance programs and related terms.
b. Consistently report on 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. Update disclosures to address uncertainties and risk factors.
e. Account for and report 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 actuary 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 may 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 and ensures that programs that guarantee settlement of losses for adverse events other than loan defaults are addressed by these standards. 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 and/or authorizing borrowing to pay for losses; or collecting assessments to guarantee against certain types of adverse events such as bank or pension failures. The funding structure does not affect whether a program qualifies as an insurance program but does affect classification.

KEY AREAS OF IMPROVEMENT

A9. Current standards in SFFAS 5 created inconsistent reporting among insurance programs through 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. concise definitions,

b. guidance for revenue recognition,

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

d. structured disclosure requirements.

A10. **Concise Definitions**: During the initial phase of the project, the Board determined that a concise set of definitions was 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 federal 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. The Board also approved a list of excluded programs to provide clarity as to what is not an insurance program.

b. Adverse Event—each insurance program is responsible to pay and 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. 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—each category processes different types of transactions that settle losses from specific adverse events. Within each category, insurance programs are to report by portfolios which are defined by groups of contracts (or claims for nonexchange programs) according to similar risk characteristics and contract durations if applicable. In addition, each category has unique accounting standards for its liability(ies). The Board determined that an insurance program will fit into one of the following three categories:

   i. Exchange Transaction Insurance Programs Other than Life Insurance

   ii. Life insurance

   iii. Nonexchange insurance programs

A11. **Revenue Recognition:** The standards for revenue recognition 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 of the ED that refers the preparer to other standards when necessary. The Board approved the following revenue recognition for each of the categories:

a. Exchange Transaction Insurance Programs Other than Life Insurance collect premiums through contracts. The entire revenue due should be recognized evenly over the contract period. If a contract period extends beyond the end of the reporting period, then a liability for unearned premiums should be recognized as not yet having been earned. The liability for unearned premiums is netted against the estimated losses for the same open contract period to recognize the liability for losses on remaining coverage.

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

c. Life Insurance Programs collect premiums for life insurance contracts. Premiums are due and collected each pay period or on another recurring basis. Because these are long-duration contracts, the Board believes that revenue should be recognized when due from policyholders because there is no better basis for determining when revenue is earned. Therefore, there is no liability for unearned premium for this category.

A12. Recognition of Liabilities and Measurement of Future Loss Estimates

a. Liability for Unpaid Claims is recognized for all categories because at the end of the reporting period all insurance programs might be processing claims for losses due to adverse events that occurred by the end of the reporting period.

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

ii. 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.

iii. 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.

b. Liability for Losses on Remaining Coverage is required for Exchange Transaction Insurance Programs Other than Life Insurance for any contracts that were open after the end of the reporting period. Research by the task force determined that a program has a service obligation to pay for any losses caused by adverse events during an open contract period.

   i. 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 and improve estimation and recognition of losses on remaining coverage

   ii. Due to the uncertain nature of adverse events, the Board believes that programs should first use the expected value approach to estimate the cost to settle claims on remaining coverage. The expected value approach is intended to address the uncertainty inherent in estimating future claims by assigning probabilities to possible outcomes. Current standards often result in recognition of no remaining liability because of inherent uncertainty. If utilizing expected value is not feasible, then another measurement method may be utilized such as a regression model or the most likely amount approach. The Board believes each of these methods deals with uncertainty in a more effective manner than the current standards requiring that losses be probable and measurable prior to recognition.

   iii. The estimated cost to settle claims, including CAE, are netted against the liability for unearned premiums and expected future premium revenue to recognize the liability for losses on remaining coverage.

c. 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.

A13. **Disclosures** are required for each insurance program category in order 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 the readers receive consistent information.

d. To provide readers with an easy to understand picture of the insurance programs fiscal health, the Board added a schedule consolidating information from the Statements of Net Cost and Net Position. The Board believes that this schedule, will provide information as to the amount of claims settled by exchange or nonexchange revenue and whether losses were funded by appropriations and/or borrowing. If borrowing is utilized, the Board is requiring insurance programs to disclose their ability to repay.

A14. **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: ILLUSTRATIONS

This appendix illustrates the application of the provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Standards.

ILLUSTRATION I:

All categories must disclose the following information for unpaid insurance claims.

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

a. Beginning balance
b. Incurred claims attributable to insured adverse events of:
   i. the current fiscal year, and
   ii. prior fiscal years
c. Payments attributable to insured adverse events of:
   iii. the current fiscal year, and
   iv. prior fiscal years
d. Recoveries and other adjustments
e. Ending balance

The following illustration is an example of how this information might be presented.

Illustration I	**FY 2XX1**	**FY 2XX0**
Liability for Unpaid Insurance Claims Beginning Balance	**$5,000**	**$3,000**
Incurred claims attributable to insured adverse events of:		
Current year	5,000	8,000
Prior fiscal years	6,000	3,000
Total Incurred Claims	16,000	14,000
Payments attributable to insured adverse events of:		
Current fiscal year	(4,500)	(5,500)
Prior fiscal years	(6,000)	(3,000)
Recoveries and other adjustments	(2,500)	(500)
Total payments and recoveries	(13,000)	(9,000)
Ending Balance	**$3,000**	**$5,000**

ILLUSTRATION II:

Exchange Transaction Insurance Programs Other Than Life Insurance must disclose the following information in order to provide a comprehensive picture about the fiscal health of the insurance program.

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

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. Revenue including premiums and interest earned
c. Net cost
d. Change in net position including nonexchange revenue, appropriations used, and other financing sources

The following illustration is an example of how this information might be presented.

Illustration II	**FY 2XX1**	**FY 2XX0**
Exchange Insurance Program A:		
Gross cost of:		
Claims expense	$7,000	$5,000
Claims adjustment expenses	700	500
Recoveries	(400)	(800)
Interest expense	750	750
Losses or (gains) on remaining coverage	5,000	3,000
Other gross costs	1,500	1,500
Gross program costs	14,550	9,950
Less: Exchange Revenue:		
Premiums earned	(7,000)	(7,000)
Interest earned	(1,000)	(1,000)
Net program cost	6,550	1,950
Less: Nonexchange revenue	0	0
Appropriations used	(600)	(600)
Other financing sources	(1,000)	(800)
Change in net position	$4,950	$550

ILLUSTRATION III:

<u>Nonexchange Transaction Insurance Programs</u> must disclose the following information in order to provide a comprehensive picture about the fiscal health of the insurance program.

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

a. Total Gross cost including the following components:

  i. Claims expense
  ii. Claims adjustment expense
  iii. Recoveries
  iv. Interest expense
  v. Other gross costs

b. Change in net position including nonexchange revenue, appropriations used, and other financing sources

The following illustration is an example of how this information might be presented.

Illustration III	**FY 2XX1**	**FY 2XX0**
Nonexchange Insurance Program B:		
Gross cost of:		
Claims expense	7,000	5,000
Claims adjustment expenses	700	500
Recoveries	(400)	0
Interest expense	400	0
Other gross costs	1,500	1,500
Gross program costs	9,200	7,000
Less: Nonexchange revenue	(8,000)	7,000
Appropriations used	0	0
Other financing sources	(1,000)	0
Change in net position	$200	$0

ILLUSTRATION IV:

Life Insurance Programs must disclose the following information in order to provide a comprehensive picture about the fiscal health of the insurance program.

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

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. (Gain)/loss on assumption changes
e. Change in net position including nonexchange revenue, appropriations used, and other financing sources

The following illustration is an example of how this information might be presented.

Illustration IV	**FY 2XX1**	**FY 2XX0**
Life Insurance Program C:		
Gross cost of:		
Claims expense	9,000	5,000
Claims adjustment expenses	900	500
Recoveries	0	0
Interest expense	0	0
Losses or (gains) on remaining coverage	(1,000)	3,000
Other gross costs	1,500	1,500
Gross program costs	10,400	10,000
Less: Exchange Revenue:		
Premiums earned	(7,000)	(7,000)
Interest earned	(1,800)	(2,000)
Net program cost	1,600	1,000
(Gain)/loss on assumption changes	1,500	(1,000)
Less: Nonexchange revenue	0	0
Appropriations used	0	0
Other financing sources	0	0
Change in net position	$3,100	$0

APPENDIX C: 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 D: 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.

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.

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 of individuals involved in nonexchange transactions as defined in SFFAS 7.

Nonexchange Transaction Insurance Programs—insurance programs that process nonexchange transactions as defined in SFFAS 7 to cover the risk of loss from adverse events.

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.

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A narrative discussion consolidated for all insurance portfolios—or a reference to one to avoid duplication of disclosures—should be provided

borrowing authority including but not limited to: balances, interest expense, repayment requirements, the ability to repay borrowing used to fund insurance claims, financing sources for repayment, and other terms of borrowing authority used in accordance to already existing standards[RG1].

investment activities,

appropriations requested, used, and/or available to return to Treasu

a.

TAB F– Attachment II

Current FASB Disclosure Examples:

Not-for-Profit Entities(Topic 958) and Health Care Entities (Topic 954)
Presentation of Financial Statements of Not-for-Profit Entities
Issued: April 22, 2015

October 2015

Current FASB Disclosure Examples:

Not-for-Profit Entities—Split-Interest Agreements - Starting on Page 36:

958-30-50-1 The notes to financial statements shall include all of the following disclosures related to **split-interest agreements**:

Comment [RG1]: FASB is still incorporating lists.

a. A description of the general terms of existing split-interest agreements
b. Assets and liabilities recognized under split-interest agreements, if not reported separately from other assets and liabilities in a statement of financial position

c. The basis used (for example, cost, lower of cost or fair value, **fair value**) for recognized assets
d. The discount rates and actuarial assumptions used, if present value techniques are used in reporting the assets and liabilities related to split-interest agreements
e. **Contribution** revenue recognized under such agreements, if not reported as a separate line item in a statement of activities
f. Changes in the value of split-interest agreements recognized, if not reported as a separate line item in a statement of activities
g. The disclosures required by the Fair Value Option Subsections of Subtopic 825-10, if a **not-for-profit entity** (NFP) elects the fair value option pursuant to paragraph 958-30-35-2(b) or 958-30-35-2(c)
h. The disclosures required by paragraphs 820-10-50-1 through 50-2 and 820-10-50-2B through 50-2E in the format described in paragraph 820-10-50-8, if the assets and liabilities of split-interest agreements are measured at fair value on a recurring basis in periods after initial recognition.

958-30-50-2 Additional annuity reserves may be required by the laws of the state where the NFP not-for-profit entity (NFP) is located or by the state where the donor resides. Legally mandated reserves shall be disclosed in the notes to financial statements. If state law imposes other limitations on the NFP, such as limitations on the manner in which some net assets are invested, those limitations also shall be disclosed in the notes to financial statements.

958-30-50-3 In addition, some NFPs voluntarily set aside additional reserves as a cushion against for unexpected actuarial losses. Voluntary reserves shall be included as part of **net assets without donor restrictions unrestricted net assets**, but may be disclosed as a separate component of **board-designated net assets**, such as board-designated unrestricted net assets on the face of the statement of financial position (see paragraph 958-210-55-3). If not provided on the face of the statement, the reserves set aside by the NFP's governing board shall be disclosed in the notes in accordance with paragraph 958-210-50-3 to disclose information about the amounts and purposes of board designations of net assets without donor restrictions.

Nature of the Not-for-Profit Entity's Activities - Starting on Page 52:

958-205-50-1 The financial statements shall provide a description of the nature of the **not-for-profit entity's** (NFP's) activities, including a description of each of its major classes of programs. If not provided in the notes to financial statements, the description can be presented on the statement of activities (for example, using column headings).

> Reporting Endowment Funds

958-205-50-1A An NFP shall disclose information to enable users of financial statements to understand all of the following about its **endowment funds** (both donor restricted and board designated):

a. Net asset classification
b. Net asset composition
c. Changes in net asset composition
d. Spending policies
e. Related investment policies.

958-205-50-1B At a minimum, an NFP shall disclose all of the following information for each period for which it presents financial statements:

a. A description of the governing board's interpretation of the law or laws that underlie the NFP's net asset classification of donor-restricted endowment funds, including its interpretation on the ability to spend from **underwater endowment funds**.

b. A description of the NFP's policy or policies for the appropriation of endowment assets for expenditure (its endowment spending policy or policies), including its policy to either reduce expenditure or not spend from underwater endowment funds, if any, and if this policy was followed.

c. A description of the NFP's endowment investment policies, including all of the following:

1. Return objectives and risk parameters
2. How return objectives relate to the NFP's endowment spending policy or policies
3. The strategies employed for achieving return objectives.

d. The composition of the NFP's endowment by net asset class at the end of the period, in total and by type of endowment fund, showing **{add glossary link}**donor-restricted endowment funds**{add glossary link}** separately from **{add glossary link}**board-designated endowment funds**{add glossary link}**.

e. A reconciliation of the beginning and ending balance of the NFP's endowment, in total and by net asset class, including, at a minimum, all of the following line items that apply:

1. Investment return, net separated into both of the following:
    i. Investment income (for example, interest, dividends, rents)

Comment [RG2]: List

Comment [RG3]: The Disclosure Framework project has tentatively voted to remove this language.

Comment [RG4]: List

ii. Net appreciation or depreciation of investments.
2. {add glossary link}Contributions{add glossary link}
3. Amounts appropriated for expenditure
4. Reclassification of net assets reclassifications
5. Other changes.

958-205-50-1C If an NFP is subject to a donor restriction or applicable laws, law or regulation that its governing board interprets as requiring the maintenance of purchasing power for {add glossary link}donor-restricted endowment funds{add glossary link}, then the NFP shall periodically adjust the disclosure amount that is required to be maintained either by the donor or by law in permanently restricted net assets to reflect that interpretation to maintain the purchasing power of the endowment fund in perpetuity. Under those circumstances, an NFP shall use the inflation (deflation) index (or indexes) that it deems most relevant for adjusting that amount the permanently restricted net assets of the funds (for example, the Consumer Price Index or the Higher Education Price Index). [Content amended as shown and moved from paragraph 958-205-45-21A]

958-205-50-2 For each period for which a statement of financial position is presented, an NFP shall disclose each of the following, in the aggregate, for all underwater endowment funds: the aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the assets at the reporting date is less than the level required by donor stipulations or law. a. The fair value of the underwater endowment funds b. The original endowment gift amount or level required by donor stipulations or by law that extends donor restrictions c. The aggregate of the amount of the deficiencies of each of the underwater endowment funds ((a) less (b)).

958-205-50-2A Paragraph superseded by Accounting Standards Update 201X-XX.Example 3 (see paragraph 958-205-55-31) and Example 4 (see paragraph 958-205-55-52) illustrate the application of the disclosure requirements in paragraphs 958-205-50-1A through 50-2.
> Ratio of Fundraising Expenses to Amounts Raised

Starting on Page 107:

958-210-50-1 A not-for-profit entity (NFP) shall disclose in notes to financial statements relevant information about the liquidity or maturity of assets and liabilities, including restrictions and self-imposed limits on the use of particular items, in addition to information provided on the face of the statement of financial position, if shown, in accordance with paragraph 958-210-45-8unless that information is provided on the face of the statement of financial position (see paragraph 958-210-45-8). Specific disclosure requirements to meet that objective include the requirements in this Subtopic.

958-210-50-1A An NFP shall disclose the following in the notes to financial statements:

a. Quantitative information useful in assessing an entity's liquidity position that shall include the following information:

1. The total amount of **financial assets.**
2. Amounts that are not available to meet cash needs within a self-defined time horizon that corresponds with the time horizon used by the NFP for managing its liquidity (for example, 30, 60, or 90 days) because of either of the following:
    i External limits
    ii. Internal designations, appropriations, and transfers made by the NFP's governing board.
3. The total amount of financial liabilities that are due within the same self-defined time horizon used in (2) above.

b. Qualitative information about how the entity manages its liquidity position also shall be disclosed. For example, an entity may disclose any of the following types of information that is relevant to how an entity manages its liquidity:

1. Strategy for addressing entity-wide risks that may affect liquidity, including its use of lines of credit.
2. Policy for establishing liquidity reserves.
3. Basis for determining the time horizon used for managing its liquidity.

See an example note disclosure in paragraph 958-205-55-21.

958-210-50-2 An NFP shall disclose all of the following, if present, in the notes to financial statements and may include that information in the qualitative disclosures in accordance with paragraph 958-210-50-1A(b):

a. Unusual circumstances, such as special borrowing arrangements, requirements imposed by resource providers that cash be held in separate accounts, and known significant liquidity problems
b. The fact that the NFP has not maintained appropriate amounts of cash and cash equivalents to comply with **{add glossary link}**donor-imposed restrictions**{add glossary link}** (see paragraph 958-450-50-3)
c. Information about significant limits resulting from contractual agreements with suppliers, creditors, and others, including the existence of loan covenants.

958-210-50-3 Section 958-210-45 discusses the following items that are required to be included in the notes to financial statements <u>if they are not provided on the face of the statement of financial position</u>:

a. A description of the kind of asset whose use is limited (see paragraph 958-210-45-6)
b. Information about the nature and amount of limitations on the use of cash and cash equivalents (see paragraph 958-210-45-7[a])
c. Contractual limitations on the use of particular assets (see paragraph 958-210-45-7[b])
d. Information about the nature and amounts of different types of permanent restrictions that affect how and when, if ever, the resources (net assets) can be used (see paragraph 958-210-45-9)

Noncash Operating, Investing, and Financing Activities - Starting on Page 129
General

958-230-50-1 Information about certain significant operating activities and all investing and financing activities of an NFP during a period that affect recognized assets or liabilities but that do not result in cash receipts or cash payments in the period shall be disclosed. Significant noncash operating activities generally are those transactions and other events that have the potential to have a significant effect on future cash flows, examples of which are included in paragraph 958-230-50-2. Those disclosures may be either narrative or summarized in a schedule, and they shall clearly relate the cash and noncash aspects of transactions involving similar items.

958-230-50-2 Examples of significant noncash operating activities and noncash investing and financing transactions are acquiring land, buildings, and similar long-lived assets used in carrying out an NFP's activities by gift or by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller; obtaining a long-lived asset (right of use) by entering into a capital lease; forgiveness of long-term debt by a creditor or contributor; receiving donated securities, real estate, and other investment assets that are held for long-term investment; and exchanging other significant noncash assets (for example, patent and royalty rights) or liabilities for other noncash assets or liabilities.

958-230-50-3 Some transactions are part cash and part noncash; only the cash portion shall be reported in the statement of cash flows.

958-230-50-4 If there are only a few such noncash transactions, it may be convenient to include them on the same page as the statement of cash flows. Otherwise, the transactions may be reported elsewhere in the financial statements, clearly referenced to the statement of cash flows.

Contributions Received - Starting on Page 152:

> Contributed Services
958-605-50-1 An entity that receives contributed services shall describe the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. Entities are encouraged to disclose the **fair value** of contributed services received but not recognized as revenues if that is practicable. The nature and extent of contributed services received can be described by nonmonetary information, such as the number and trends of donated hours received or service outputs provided by volunteer efforts, or other monetary information, such as the dollar amount of **contributions** raised by volunteers. Disclosure of contributed services is required regardless of whether the services received are recognized as revenue in the financial statements.

> Accounting Policies
958-605-50-2 When a **not-for-profit entity** (NFP) reports **{add glossary link}**contributions**{add glossary link}** with **{add glossary link}**donor-imposed restrictions**{add glossary link}** as support within **net assets without donor restrictionsunrestricted support** in accordance with paragraph 958-605-45-4, it shall disclose its accounting policy.

Starting on Page 174:

958-720-50-1 The financial statements of a **not-for-profit entity** (NFP) shall disclose all of the following information:

a. Total fundraising expenses.

b. Total program expenses and information about why total program expenses disclosed in the notes do not articulate with the statement of activities. Pursuant to paragraph 958-720-45-5, this disclosure is only required if the components of total program expenses are not evident from the details provided on the face of the statement of activities (for example, if cost of sales is not identified as either program or supporting services).

Merger of Not-for-Profit Entities - Starting on Page 182:

958-805-50-1 The new not-for-profit entity **(NFP) shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the** merger of not-for-profit entities **that resulted in its formation.**

958-805-50-2 To meet the objective in the preceding paragraph, the new NFP shall disclose the following information for the merger that resulted in its formation:

a. The name and a description of each merging entity

b. The **merger date**

c. The primary reasons for the merger

d. Both of the following for each merging entity:

1. The amounts recognized as of the merger date for each major class of assets and liabilities and each class of net assets
2. The nature and amounts, if applicable, of any significant assets (for example, conditional promises receivable or collections) or liabilities (for example, conditional promises payable) not otherwise required to be recognized under generally accepted accounting principles (GAAP).

e. The nature and amount of any significant adjustments made to conform the individual accounting policies of the merging entities or to eliminate intra-entity balances.

958-805-50-3 If the new NFP is a **public entity** and the merger occurs at other than the beginning of an annual reporting period (that is, if its initial financial statements thus cover less than an annual reporting period), the new NFP shall disclose all of the following supplemental pro forma information:

a. Revenue for the current reporting period as though the merger date had been the beginning of the annual reporting period
b. Changes in **net assets without donor restrictions** and changes in **net assets with donor restrictionsunrestricted net assets**, changes in **temporarily restricted net assets**, and changes in **permanently restricted net assets** for the current reporting period as though the merger date had been the beginning of the annual reporting periodperiod.
c. **Operating excess (deficit) of a not-for-profit entity before transfers** and the **operating excess (deficit) of a not-for-profit entity after transfers** attributable to the acquiree since the acquisition date that is included in the statement of activities for the reporting period
d. Operating excess (deficit) of a not-for-profit entity before transfers and the operating excess (deficit) of a not-for-profit entity after transfers as though the acquisition date for all acquisitions that occurred during the current year had occurred at the beginning of the annual reporting period
e. Items required in (c) for the prior annual reporting period if the acquirer presents comparative financial statements
f. Nature and amount of any material nonrecurring pro forma adjustments directly attributable to the acquisitions included in the reported pro forma before transfers into operating excess.

958-805-50-4 If the new NFP is a public entity and it presents comparative financial information in the annual reporting period following the year in which the merger occurs, it shall disclose the supplemental pro forma information in the preceding paragraph for the comparable prior reporting period as though the merger date had been the beginning of that prior annual reporting period.

958-805-50-5 If disclosure of any of the information required by paragraphs 958-805-50-3 through 50-4 is impracticable, the new NFP shall disclose that fact and explain why the disclosure is impracticable. The term *impracticable* has the same meaning as *impracticability* in paragraph 250-10-45-9.

958-805-50-6 If the specific disclosures required by this Subsection do not meet the objective in paragraph 958-805-50-1, the new NFP shall disclose whatever additional information is necessary to meet that objective.

TAB F– Appendix A

Risk Assumed:
Insurance Programs

Project Decision History and Milestones

(Optional Reading for Reference)

Risk Assumed: Insurance Programs Project Decision History and Milestones

August 2015:

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

The following items were discussed:

I. Category Titles:

Staff recommended that the Board update the risk assumed-insurance program titles by replacing the word “revenue” with the word “transaction” because 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. Proposed Standards for Life Insurance Programs:

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. Include Disclosures for Short- and Long-Duration Contracts

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.

<u>Exchange revenue insurance programs other than life insurance category:</u>
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.

<u>Nonexchange revenue insurance programs category:</u>
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.

<u>Life insurance category:</u>
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.

<u>The government-wide (GW) financial report:</u>
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.

<u>April 2015:</u>

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.

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[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.

<u>March 2014:</u>

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

<u>December 2013:</u>

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