



**ALERT**

## FASB Proposes Guidance on Insurance Contracts

On June 27 the FASB issued a proposed Accounting Standards Update (ASU) that would change the accounting and financial reporting for insurance and reinsurance contracts issued and reinsurance contracts held regardless of the type of entity issuing or holding these contracts.<sup>1</sup> This would be a change from current U.S. GAAP for insurance contracts, which generally applies only to insurance companies and not to non-insurance entities issuing similar contracts (e.g., certain financial guarantee contracts). Other than reinsurance contracts, the proposed ASU does not address accounting by policyholders.

The proposed ASU introduces a building-block approach (based on discounted estimates of future cash flows under the contract and a margin to remove any gain at inception) to account for most life, annuity, and long-term health contracts and a premium allocation approach (comprising a liability for the remaining coverage under the contract and a liability for incurred claims) for most property and casualty and short-term health contracts. These approaches would replace the numerous accounting models in use that were developed to address specific types of insurance contracts.

Presentation requirements for insurance contracts in financial statements would be significantly different from current presentation. In addition, disclosures in the notes to the financial statements would be expanded.

The proposed ASU calls for retrospective application and would prohibit early adoption. It does not specify an effective date, but instead requests feedback on the appropriate timing for an effective date. The proposed ASU indicates that the effective date for non-public entities will likely be a minimum of one year later than the effective date for public entities. The comment period on the proposed ASU ends October 25, 2013.

The FASB has jointly deliberated the insurance contracts proposals with the IASB, which issued a re-exposure of its proposals on June 20 that asked questions focusing on the key changes since its 2010 exposure draft.<sup>2</sup> While there are many common decisions by the Boards, the proposals differ on key aspects of the measurement models as well as certain elements of the scope of the proposals.

<sup>1</sup> FASB Proposed Accounting Standards Update, Insurance Contracts (Topic 834), June 27, 2013, available at [www.fasb.org](http://www.fasb.org).

<sup>2</sup> IASB Revised Exposure Draft ED/2013/7, Insurance Contracts, June 20, 2013, and IASB Exposure Draft ED 2010/8, Insurance Contracts, July 2010, both available at [www.ifrs.org](http://www.ifrs.org).

We will be issuing additional publications that will describe the proposed ASU and its effect on entities issuing insurance contracts.

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