Insurance generally accepted accounting principles (GAAP) update

Erin Murphy
Ernst & Young
Agenda

► Insurance contracts
  ► Disclosures about short-duration insurance contracts
  ► Long-duration insurance contracts
► Revenue recognition
► FASB Developments
  ► Classification and measurement
  ► Accounting for credit impairment
  ► Financial Instruments - Hedging
  ► Leases
  ► Overview of the Simplification Project
Insurance contracts overview
Targeted improvements to US GAAP

June 2013
FASB and IASB issue exposure drafts

FASB
Re-deliberates plan in February 2014 and decides to focus on targeted improvements

Out of scope
Contracts written by non-insurance entities

IASB continues deliberations; will not issue final standard before the end of 2015

Short-duration disclosures
Final standard released May 2015

Long-duration contracts
Deliberations began August 2014
Expected ED in H1 2016
Disclosures about short-duration contracts
Disclosures about short-duration contracts
Overview and effective date

Overview:
- ASU 2015-09, Financial Services – Insurance (Topic 944): Disclosures about Short-Duration Contracts issued in May 2015
- Requires additional disclosures about the liability for unpaid claims and claim adjustment expenses for short-duration contracts in the scope of Accounting Standards Codification (ASC) 944 Financial Services – Insurance

Effective date:
- Public business entities
  - Annual periods beginning after 15 December 2015
  - Interim periods beginning after 15 December 2016
- One year deferral for other entities
- Early adoption is permitted
Disclosures about short-duration contracts
Disaggregation principle

- For disclosures about claims development and other disclosures about claims liabilities
  - Useful information shall not be obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics
  - Consider how information about the liability for unpaid claims and claim adjustment expenses has been presented for other purposes
  - Must not aggregate amounts from different ASC 280, *Segment Reporting* reportable segments

**Example categories (any or all of the following)**

- Type of coverage (for example, major product line)
- Geography (for example, country or region)
- Reportable segment as defined in Topic 280 on segment reporting
- Market or type of customer (for example, personal and commercial lines of business)
- Claim duration (for example, claims that have short settlement periods or claims that have long settlement periods)
Disclosures about short-duration contracts
Summary of disclosures

► Net incurred and paid claims development tables* in the annual financial statements
  ► Present information about the number of years for which claims incurred typically remain outstanding, but need not exceed 10 years**
  ► All periods presented in this disclosure that precede the most recent reporting period shall be considered supplementary information (SI)

Implementation considerations

► Treatment of acquisitions and disposals of insurance business
► Treatment of certain reinsurance transactions
► Foreign currency translation adjustment
► Differences with pre-existing disclosures, such as Schedule P and Securities Exchange Commission (SEC’s) Management Discussion and Analysis (MD&A) claim development tables
► Data from international insurance subsidiaries
► Supplementary information

* Disclosure shall apply the disaggregation principle
** As a practical expedient insurers may show five years in the first year of adoption, adding a year each year subsequent
Disclosures about short-duration contracts

Summary of disclosures

- Reconciliation of incurred and paid claims development tables to the carrying amount of the liability for unpaid claims and claim adjustment expenses*
  - Includes reinsurance recoverables
- Average annual percentage payout of claims for all years included in claims development tables*
  - Disclosure is considered SI
  - Disclosure is not required for health insurance claim liabilities

Implementation considerations

- Disaggregation of the reinsurance recoverables

* Disclosure shall apply the disaggregation principle
Disclosures about short-duration contracts
Summary of disclosures

► For each accident year in the claims development tables:
  ► Claim frequency
    ► Quantitative information about claim frequency*, unless impracticable
    ► Methodology for determining claim frequency, including significant changes to the methodology
  ► Incurred but not reported (IBNR)
    ► Total of IBNR, including IBNER* expectations about incidents not yet reported and expected developments on reported claim
    ► Methodology for determining IBNR, including significant changes to the methodology
    ► Required disclosure for health insurance claims in interim periods*

**Implementation considerations**

► Defining claim counts or other measures of claim frequency
► Impracticability threshold
  ► ASC 250-10-45-9a, Accounting Changes and Error Corrections “after making every reasonable effort to do so, the entity is unable to apply the requirement”
► Disaggregation of IBNR presented at the accident year level

* Disclosure shall apply the disaggregation principle
Disclosures about short-duration contracts

Summary of disclosures

► Rollforward of liability for unpaid claims and claim adjustment expenses required for interim periods
  ► Rollforward currently is required for annual financial statements
  ► For health insurance claim liabilities, the rollforward is disaggregated

► In the annual financial statements
  ► Significant changes in methodologies and assumptions used in the liability calculation
    ► Disclosure includes reasons for the change and effects on the financial statements
  ► Information related to liabilities presented at present value (carrying amount of liabilities, amount of discount, range of discount rates, interest accreted and line item interest accretion is recognized)

* Disclosure shall apply the disaggregation principle
Long-duration insurance contracts
Long-duration insurance contracts
Liability for policyholder benefits

- Traditional, limited payment and participating contracts
  - Update all assumptions annually during the fourth quarter
  - Remove the requirements for
    - Provision for adverse deviation
    - Premium deficiency testing (loss recognition)

- Additional liability related to universal-life type contracts
  - Update all assumptions annually during the fourth quarter

- Long-duration insurance contracts currently discounted using an expected investment yield approach and participating contracts
  - Discount rate would be a rate based on a portfolio of high-quality fixed-income investments
Long-duration insurance contracts
Liability for policyholder benefits

► Traditional and limited payment contracts
  ► Retrospective recognition of the cash flow assumption changes
    ► Revise the net premium model
    ► Record adjustment as a cumulative catch-up in net income
    ► Cap net premium ratio at 100%
  ► Immediate recognition of updating discount rate assumptions in other comprehensive income

► Participating contracts
  ► Model would be required to use assumptions about investment yields, terminations, expenses and dividend payments in addition to mortality and discount rates
  ► Consistent with the approach above for traditional and limited payment contracts
Liabilities for certain benefit features in insurance contracts that expose an insurer to other-than-nominal capital market risk*

- Measure at fair value
- Changes in fair value recorded directly in income
  - FASB is considering whether the change in fair value due to own credit risk would be reported in other comprehensive income (OCI)
- Amend ASC 815 *Derivatives and hedging* to include a scope exception for these benefit features

* Would include benefit features that are currently accounted for as embedded derivatives (ASC 815), under the benefit ratio model (ASC 944) or not required to be recognized in accordance with ASC 944.
Long-duration insurance contracts
Deferred acquisition costs (DAC)

► Multiple DAC amortization methods would be replaced by one primary method based on the respective amount of insurance in force
  ► Alternative method would be available if amount of insurance in force is variable and cannot be reliably predicted or readily determined
  ► Would not apply to certain investment contracts currently using an effective interest method
► Interest would not accrue on the undiscounted balance of deferred acquisition costs
Long-duration insurance contracts
Additional disclosures

► Liability for future policy benefits
  ► Disaggregated* balances of the liability
  ► Weighted-average discount rates used, in time bands, for the disaggregated balances of the liability
  ► Quantitative and qualitative information about the methods and inputs used, for the disaggregated balances of the liability
    ▶ Include disclosure of assumptions used, such as discount rate, mortality, morbidity, termination and expense assumptions
  ► Disaggregated reconciliations from the opening to the closing balance of the liability for future policy benefits, with separate disclosure of changes due to new contracts, benefit payments, changes in assumptions and derecognition of contracts

* Disaggregation principle in ASU 2015-09 could be considered through analogy for these disclosures. The principle indicates useful information shall not be obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics. In addition, an insurer should consider how information about the liability has been presented for other purposes.
Long-duration insurance contracts
Items to be addressed by the FASB

► Presentation of the change in own credit risk within the change in fair value of the benefit features of non-traditional contracts
► Transition and effective date
Revenue recognition
Revenue recognition
Overview

► FASB and IASB issued converged new revenue recognition standards in May 2014
  ▶ Core principle: Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

► Proposed amendments to the standard generally are intended to make the standard more operational but core principle has not changed

► FASB/IASB’s Joint Transition Resource Group for Revenue Recognition (TRG) and other implementation resource groups (e.g., AICPA Task Forces) are discussing various implementation issues
  ▶ The amount of standard-setting and activities by implementation groups are not unusual for a broad-scope standard

► Many companies are actively working on implementation
### Revenue recognition

**What makes this complex?**

**Core principle** – Recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity *expects to be entitled* in exchange for those goods or services.

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
<th>Step 4</th>
<th>Step 5</th>
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</thead>
<tbody>
<tr>
<td>Identify the contract(s) with the customer</td>
<td>Identify the separate performance obligations in the contract</td>
<td>Determine the transaction price</td>
<td>Allocate the transaction price to the separate performance obligations</td>
<td>Recognize revenue when (or as) each performance obligation is satisfied</td>
</tr>
<tr>
<td>Strict criteria to be a contract</td>
<td>Identifying promised goods and services</td>
<td>May not equal “contractual” price</td>
<td>Estimating standalone selling prices</td>
<td>Transfer of control: point in time or over time</td>
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<td>Assessing collectability</td>
<td>Determining performance obligations (i.e., distinct goods and services)</td>
<td>Variable consideration, incl. bonuses, returns, concessions, discounts</td>
<td>Exceptions for allocating variable consideration and discounts</td>
<td>Measuring progress over time</td>
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<td>Identifying the customer</td>
<td>Options granting a material right</td>
<td>Constraint on variable consideration</td>
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<td>Consignment arrangements</td>
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<td>Contract modifications</td>
<td>Rights of return</td>
<td>Significant financing component</td>
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<td>Customer acceptance</td>
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<td>Identify explicit and implicit contract terms</td>
<td>Service-type and assurance-type warranties</td>
<td>Non-cash consideration</td>
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<td>Repurchase provisions</td>
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<tr>
<td>Established business practices</td>
<td>Principal versus agent</td>
<td>Payments to customers</td>
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<td>Licenses</td>
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<td>Combining contracts</td>
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<td>Subsequent changes in transaction price</td>
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<td></td>
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</tbody>
</table>
Revenue recognition
Standard-setting and implementation activities

► FASB standard setting

<table>
<thead>
<tr>
<th>Projects</th>
<th>Status</th>
</tr>
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<tbody>
<tr>
<td>Deferral of the effective date</td>
<td>Final standard issued 12 August 2015</td>
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<tr>
<td>Identifying performance obligations</td>
<td>ED comment period ended June 30 – ED to be redeliberated</td>
</tr>
<tr>
<td>Principal versus agent (reporting gross versus net)</td>
<td>ED comment period ended October 15 – ED to be redeliberated</td>
</tr>
<tr>
<td>Narrow-scope improvements and practical expedients</td>
<td>ED comment period ended November 16 – ED to be redeliberated</td>
</tr>
</tbody>
</table>

► Joint Transition Resource Group continues to discuss implementation issues

► AICPA’s 16 industry task forces are developing non-authoritative industry guidance
Revenue recognition
Effective date

► FASB decided to defer the effective date for all entities by one year

► Entities requested extra time to:
  ► More fully develop accounting policies
  ► Procure and implement more complete information technology systems
  ► Better update processes and internal controls
  ► Better understand and apply FASB’s proposed amendments
  ► Compensate for the delay in the issuance of the final standard

► New US GAAP effective dates:
  ► Annual reporting periods beginning after 15 December 2017 and interim periods therein for public entities
  ► Annual reporting periods beginning after 15 December 2018 and interim reporting periods within annual reporting periods beginning after 15 December 2019 for all other entities
  ► Early adoption would be allowed using original effective dates

► IASB also decided to defer its effective date by one year
Revenue recognition
Proposed amendments – FASB

Identifying performance obligations

► Clarifies when goods/services are separately identifiable
  ► Reframe the principle for determining when goods/services are separately identifiable
  ► Align the standard’s three indicators for determining whether a good or service is separately identifiable with this principle
  ► Add examples

► Allows entities to disregard goods or services that are immaterial in the context of the contract
Revenue recognition
Proposed amendments – FASB (continued)

Principal versus agent considerations

► Clarify how an entity should identify the unit of accounting for the principal versus agent evaluation
► Clarify how control applies to transactions such as service arrangements that stakeholders have raised questions about
► Reframe the indicators to focus on a principal rather than an agent and clarify the relationship between the control principle and the indicators
► Changes to examples
Revenue recognition
Tentative decisions – FASB

Other topics

► Collectibility
  ► Clarify how to assess collectibility
  ► Amend the guidance to permit recognition of nonrefundable consideration as revenue if certain criteria are met

► Presentation of sales taxes
  ► Add a practical expedient to allow reporting on a net basis with disclosure of the policy

► Noncash consideration
  ► Clarify that the fair value should be measured at contract inception and the constraint on variable consideration applies only to the variability for reasons other than the form
Revenue recognition
Tentative decisions – FASB (continued)

Other topics

► Transition – contract modifications
  ► Add a practical expedient to provide targeted relief on contracts modified prior to adoption

► Transition – completed contracts
  ► Clarify that, for a contract to be considered completed at transition, all (or substantially all) of the revenue must have been recognized under legacy GAAP
  ► Permit entities to apply the modified retrospective transition approach to all contracts
Revenue recognition
Joint Transition Resource Group

► Created by the FASB and the IASB to help determine whether more guidance is needed
  ► Does not make formal recommendations to the Boards or issue guidance
  ► Members include preparers, auditors and users
► TRG has discussed 33 topics in five meetings
  ► Boards have discussed or are expected to further consider 12 of those topics
  ► FASB is proposing additional guidance on eight of the topics
► Nature of questions submitted to the TRG evolving
  ► Recent questions are more narrowly focused
  ► FASB and IASB staff preliminary analyses are included in TRG meeting materials
Revenue recognition
State of implementation

► Companies are currently undertaking implementation activities, including:
  ► Establishing a cross-organization project team, governance structure and initial project plan
  ► Starting a company-specific assessment
  ► Understanding the changes from both a financial statement and operational perspective
  ► Evaluating the transition method and establishing a process for gathering required data
  ► Engaging with industry groups, peer companies and auditors on implementation issues
  ► Determining training requirements

► Implementation efforts vary significantly but can be extensive, and companies should use the extended transition time to prepare for implementation
## Revenue recognition

### What is in scope?

**Note:** While the below are typical revenue streams considered in scope for insurance entities, the list is not all inclusive. All revenue streams need to be analyzed.

<table>
<thead>
<tr>
<th>Third-party administrator (TPA)</th>
<th>Managed care (ASO)</th>
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</thead>
<tbody>
<tr>
<td>Claims processing and administration services</td>
<td>Enrollment and member services</td>
</tr>
<tr>
<td>Property appraisal services</td>
<td>Claim payment adjustment and recovery services</td>
</tr>
<tr>
<td>Information risk management services</td>
<td>Subrogation services</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asset management</th>
<th>Insurance and reinsurance brokerage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading and administration services</td>
<td>Brokerage arrangements</td>
</tr>
<tr>
<td>Investment management services</td>
<td>Agency arrangements</td>
</tr>
<tr>
<td>Business and corporate development services</td>
<td>Advisory arrangements</td>
</tr>
</tbody>
</table>
Revenue recognition
Insurance industry issues

► Implementation issue: Interaction of contracts accounted for under ASC 944 and the guidance in ASC 606-10-15-2 and 15-4

► Background:
  ► Insurance contracts under ASC 944 are specifically excluded from the scope of ASC 606
  ► Different views in industry on whether to apply ASC 606 when there is a contract with multiple components

► Different views:
  ► Entire contract should be scoped out of ASC 606 because insurance contracts under ASC 944 are scoped out
  ► Companies should bifurcate the components of the contract and apply ASC 606 to non-insurance components

► Implementation issue has been submitted to the FASB Transition Resource Group (TRG)
Revenue recognition
Insurance industry issues

► Implementation issue: investment contracts within the scope of ASC 944
  ► Implementation issue has been submitted to the FASB as a request for a technical correction

► Other implementation issues
  ► Scope of health service contracts accounted for under ASC 954, *Health Care Entities* and ASC 944 within ASC 606
  ► Servicing property and casualty claims
  ► Accounting for third-party extended service warranty contracts within the scope of ASC 606

► Other industry issues
Classification and measurement

Background

- The FASB concluded redeliberations on its 2013 proposal and decided to make targeted amendments to existing US GAAP
  - FASB decided not to pursue the 2013 proposed model because it would not reduce complexity
- At the November 11, 2015 meeting, the FASB set the effective dates as follows:
  - For Public Business Entities – Annual periods beginning after December 15, 2017 and interim periods therein
  - For Non Public Business Entities – Annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019
- The FASB has completed deliberations and the final standard is expected in early 2016
Classification and measurement
Changes expected to existing US GAAP

► Equity investments
  ► Equity investments (not resulting in consolidation and not accounted for under the equity method) would be measured at FV-NI
  ► Practicability exception would be available for equity investments without readily determinable fair value
    ► Measurement would be at cost less impairment, adjusted for observable price changes for an identical or similar investment of the same issuer

► Financial liabilities measured under the fair value option (FVO)
  ► Changes in instrument-specific credit risk for financial liabilities that are measured under the FVO would be recognized in other comprehensive income (OCI)

► Deferred tax assets
  ► Valuation allowances on deferred tax assets related to available-for-sale (AFS) debt securities would be evaluated in combination with an entity’s other deferred tax assets
Classification and measurement
Changes expected to existing US GAAP (continued)

- Disclosure
  - Disclosure of the fair value of financial instruments measured at amortized cost would no longer be required for entities that are not public business entities
  - Exception to measure the fair value of loans receivable for disclosure purposes on an entry price notion would be eliminated

- Transition
  - Would apply to all outstanding instruments
  - Record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance becomes effective, with two exceptions that would be effective prospectively:
    - New disclosure requirements
    - Practical expedient for recognizing and measuring nonmarketable equity securities
Classification and measurement
Existing US GAAP expected to be retained

- Classification and measurement models for loans and debt securities
- Accounting for equity method investments
- Guidance for bifurcating embedded derivatives from hybrid financial instruments
- Guidance for financial liabilities not measured under the FVO
- Unconditional fair value option
- Classification and measurement of lender loan commitments
- Accounting for unrealized foreign currency gains and losses on AFS debt securities
- Balance sheet presentation
The Board decided to:

- Replace today's “incurred loss” model with an “expected loss” model
- Maintain but modify today's other-than-temporary impairment model for available-for-sale debt securities

The FASB’s impairment project is a response to calls for larger reserves to be recognized earlier

- Some constituents believed today’s model delayed recognition of losses associated with loans and other financial instruments

At the November 11, 2015 meeting, the FASB set the effective dates as follows:

- For Public Business Entities – Annual periods beginning after December 15, 2018 and interim periods therein
- For Non Public Business Entities – Annual periods beginning after December 15, 2019 and interim periods beginning after December 15, 2020

The FASB has completed deliberations and the final standard is expected in early 2016
Accounting for credit impairment
Scope of the impairment models

- Trade receivables
- Held-to-maturity (HTM) debt securities
- Loans and loan commitments
- Lease and reinsurance receivables
- Certain financial guarantees

New “current expected credit loss” (CECL) model

- Available-for-sale (AFS) debt securities

Modified ASC 320 impairment model
Accounting for credit impairment
Current expected credit loss model

Core concept
An entity should reserve for its current estimate of all *contractual cash flows* not expected to be collected

Key elements of the estimate
- No recognition threshold (or trigger concept)
- Risk of loss, even if that risk is remote
- Various acceptable methods
- Historical lifetime loss data (e.g., vintage)
- Information about current conditions
- Reasonable and supportable forecasts
## Accounting for credit impairment
Modified ASC 320 impairment model for AFS debt securities

### Today’s other-than-temporary impairment (OTTI) model

<table>
<thead>
<tr>
<th>three-step impairment approach</th>
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</thead>
<tbody>
<tr>
<td><strong>Step 1</strong></td>
<td>Determine whether debt security is impaired (i.e., is FV less than cost?)</td>
</tr>
<tr>
<td><strong>Step 2</strong></td>
<td>Evaluate whether an impairment is other than temporary</td>
</tr>
<tr>
<td><strong>Step 3</strong></td>
<td>Measure and recognize an OTTI (as a direct write-down of the cost basis)</td>
</tr>
</tbody>
</table>

### Tomorrow’s modified ASC 320 impairment model

<table>
<thead>
<tr>
<th>three-step impairment approach</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1</strong></td>
<td>No change</td>
</tr>
</tbody>
</table>
| **Step 2** | In evaluating whether credit loss exists, management would not consider:  
  - The length of time and the extent to which the fair value has been less than the amortized cost basis  
  - Recoveries or additional declines in fair value after the balance sheet date |
| **Step 3** | Measure and recognize an impairment allowance instead of OTTI (as a direct write-down of cost basis):  
  - Reversals of the impairment allowance would be recognized upon improvement in credit quality  
  - Yield (interest income) would no longer be prospectively changed when expectations of cash flows increase |
FASB tentatively decided to make certain targeted improvements to the hedge accounting model.

- Objective is to make it easier for companies to apply and for users to understand.
- Reflects feedback received on hedging proposals issued in 2008 and in 2010.
- Tentative decisions cover a broad range of issues for hedges of financial and nonfinancial items.

A proposed ASU is planned in 2016 but the effective date is not yet known.
Financial instruments – hedging
Key tentative decisions

► Presentation and timing of recording the change in fair value (FV) of hedging derivative
  ► For fair value hedges, the effective and ineffective portions of the change in FV of derivative would be presented in the income statement line item affected by hedged item
  ► For cash flow hedges, the entire change in FV of derivative would be recorded in OCI until hedged item affects earnings
► Ability to hedge contractually specified components of nonfinancial items
► Expansion of benchmark interest rate concept for financial items
► Simplify long-haul method for fair value hedges of financial items
► Allow use of long-haul method if shortcut method inappropriately applied
► Simplify quantitative hedge effectiveness assessment
► Require certain additional disclosures
Leases
Overview

► At the November 11, 2015 meeting, the FASB set the effective dates as follows:
  ► For Public Business Entities – Annual periods beginning after December 15, 2018 and interim periods therein
  ► For Non Public Business Entities – Annual periods beginning after December 15, 2019 and interim periods beginning after December 15, 2020

► The FASB has completed deliberations and the final standard is expected in early 2016

► Key changes to today’s US GAAP guidance include:
  ► Lessees would recognize assets and liabilities for most leases
  ► New presentation and disclosure requirements for lessees
  ► Real estate-specific guidance would be eliminated
  ► Leases would be classified using a principle similar to IAS 17, *Leases*
  ► Only costs that would not have been incurred if a lease had not been executed would qualify as initial direct costs
Leases
Definition of a lease

A contract is a lease if it both:
- Depends on the use of an identified asset (explicitly or implicitly)
  - No identified asset if the supplier has a substantive substitution right
- Conveys the right to control the use of an identified asset – that is, the customer has the right to (both):
  - Direct the use of the identified asset
  - Obtain substantially all of the potential economic benefits from directing the use

Non-lease components of a contract would be accounted for separately under other applicable GAAP
- Subject to practical expedient for lessees
Leases
Lease classification

► Lessees and lessors would classify leases using a classification principle similar to IAS 17, *Leases*
  ► Similar to US GAAP but without bright lines
  ► Today’s real estate-specific guidance would be eliminated
  ► Today’s additional lessor classification criteria would be changed

► Lessees would classify most leases as either:
  ► Type A – similar to today’s capital leases
  ► Type B – similar to today’s operating leases
  ► Optional exemption for short-term leases

► Lessors would classify all leases as either:
  ► Type A – similar to today’s sales-type or direct financing leases
  ► Type B – similar to today’s operating leases
## Leases

### Lessee accounting

<table>
<thead>
<tr>
<th>Type A lease</th>
<th>Type B lease</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Initial recognition and measurement</strong></td>
<td>Initially measure the lease liability at present value of lease payments. Initial measurement of the ROU asset at cost including the amount of the initial measurement of the lease liability, plus the lessee’s initial direct costs and prepayments made to the lessor less lease incentives received from the lessor.</td>
</tr>
<tr>
<td><strong>Subsequent measurement – lease liability</strong></td>
<td>Accrete the lease liability based on the interest method using discount rate determined at lease commencement* and reduce the lease liability by the payments made.</td>
</tr>
<tr>
<td><strong>Subsequent measurement – ROU asset</strong></td>
<td>Amortize the ROU asset, generally on a straight-line basis over shorter of lease term or useful life of ROU asset</td>
</tr>
<tr>
<td><strong>Income statement effect</strong></td>
<td>► Generally “front-loaded” expense ◄ Separate interest and amortization</td>
</tr>
</tbody>
</table>

* As long as a reassessment and a change in the discount rate has not been triggered.
Leases
Lessor accounting

► Many aspects of today’s lessor accounting would remain the same
► Type A leases – similar to today’s sales-type or direct financing leases
  ► Selling profit (if any) would be deferred if lease does not transfer control of underlying asset to lessee (and collection of lease payments is probable)
  ► Lessors can recognize profit for Type A leases that meet all of the following:
    ► Selling profit is included (fair value is greater than carrying value)
    ► Control of the underlying asset is transferred to the lessee
    ► Collectibility of lease payments is probable
      ► If collectibility is not probable: defer income recognition (similar to ASC 606)
► Type B leases – similar to today’s operating leases
Overview of the simplification initiative

- Narrow scope changes through a series of short-term projects
- Objective is to reduce cost and complexity while maintaining or improving the usefulness of the information required to be reported in the financial statements
- Companies are encouraged to follow these projects closely because the FASB is moving quickly on them

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<td>► Accounting for measurement-period adjustments</td>
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<td>► Extraordinary items</td>
<td>► Balance sheet classification of debt</td>
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<td>► Measurement date of defined benefit obligations and plan assets</td>
<td>► Accounting for income taxes</td>
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<td>► Presentation of debt issuance costs</td>
<td>► Share-based payments</td>
</tr>
<tr>
<td>► Measurement of inventory</td>
<td>► Equity method of accounting</td>
</tr>
</tbody>
</table>
Conclusion

► Significant amount of pending GAAP guidance

► Companies should be developing project plans for upcoming adoption dates

► Continue to monitor developments in 2016
Questions?
Erin Murphy
Bio

Erin is a Senior Manager with Ernst & Young’s Financial Services Office in Boston, MA. She has over fifteen years of experience in the financial services industry serving insurance. Her industry exposure includes life, property casualty, managed care, and reinsurance companies from mid-sized to large multi-national public insurance companies reporting IFRS, US GAAP, and NAIC bases of accounting.

Erin’s clients have included John Hancock, Wilton Reinsurance, Blue Cross Blue Shield of MA, FM Global, and Ability Reinsurance. Through her work on these audits, Erin has experience accounting for and auditing a variety of life, property casualty, and managed care insurance products. Erin also has a strong knowledge of investments and derivatives. She has assisted clients with their implementation and execution of a control-based audit approach under SOX 404 and the Model Audit Rule.

Erin is a Member of the American Institute of Certified Public Accountants (AICPA) and the Massachusetts Society of Certified Public Accountants (MSCPA). She received a Bachelor of Business Administration degree in Accounting from James Madison University in Harrisonburg, Virginia.