

Financial Reporting Center – Long-Duration Contracts Issued by Insurance Entities

Working Draft: Targeted Improvements to Long-Duration Contracts Implementation Issue



Issue #9D: Deferred acquisition costs - Considerations for determining the expected term of the contract

Wording to be Included in the Audit and Accounting Guide: Life and Health Insurance Entities

1. Consistent with the discussion in BC89 in the "Basis for Conclusions" section of ASU No. 2018-12, FinREC believes that the expected term of the contract for the amortization of capitalized acquisition costs is the period for which there are contractual cash flows, including those related to claim settlement. For example, for contracts such as long-term care or disability, the expected term of the contract for the amortization of capitalized acquisition costs includes the period over which claims are expected to be paid.
2. For contracts with accumulation and payout phases, in accordance with FASB ASC 944-30-35-3, the expected term of the contract for the amortization of capitalized acquisition costs only includes the accumulation phase of the contract because the payout phase is required to be accounted for as a separate contract. Further, in accordance with ASC 944-40-35-8B, on the date of annuitization (for annuitization benefits) or upon extinguishment of the account balance (for withdrawal benefits), the balance related to the market risk benefit shall be derecognized. Consistent with the market risk benefit derecognition guidance in ASC 944-40-35-8B, FinREC believes the guidance in ASC 944-30-35-3 is also applicable to an annuity contract with a guaranteed withdrawal benefit contract feature accounted for as a market risk benefit. That is, for amortization of capitalized acquisition costs, the contract term ends upon extinguishment of the account balance and derecognition of the market risk benefit.

Comments should be received by May 15, 2020, and sent by electronic mail to Kim Kushmerick at kim.kushmerick@aicpa-cima.com, or you can send them by mail to attention: Kim Kushmerick, 1345 Avenue of the Americas, New York, N.Y., 10105.