GAAP Update

December 1, 2016

Accounting Standards Updates (ASU's)

- **ASU No.:**
  - 2015-09, Insurance – Disclosure about Short-Duration Contracts
  - 2016-01, Accounting for Financial Instruments – Classification and Measurement
  - 2016-02, Leases
  - 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships
  - 2016-06, Contingent Put and Call Options in Debt Instruments
  - 2016-07, Simplifying the Transition to the Equity Method of Accounting
  - 2016-09 Employee Share-Based Payment Accounting Improvements
  - 2016-13, Accounting for Financial Instruments – Credit Losses
  - 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

ASU No. 2015-09, *Insurance – Disclosures about Short-Duration Contracts*

- **Effective Dates:**
  - Public companies:
    - Annual disclosures year ended December 31, 2016
    - Interim disclosures first period in 2017
  - Non-public companies:
    - Annual disclosures year ended December 31, 2017
    - Interim disclosures first period in 2018

ASU No. 2015-09 *(Continued)*

- **Key disclosures:**
  - Interim disclosure reconciling beginning and ending reserves
  - Development triangles up to 10 accident years
    - Paid claims and allocated claims adjustment expense (ALAE)
    - Incurred claims and ALAE
  - Incurred but not reported claims and claims adjustment expense (LAE) by accident year
  - Current reported claims frequency by accident year
  - Reconciliation of development triangles to carried unpaid claims and LAE in the current period
  - Explanations of significant changes in methods and assumptions used to calculate reserves and derive reported claim frequency and IBNR
  - Average annual percentage payout of incurred claims by age of accident year

ASU No. 2015-09 *(Continued)*

	Interim Period
Balance at January 1	$ 59,433
Less reinsurance recoverable	(13,987)
Liability for claims and LAE, net of reinsurance	45,446
Incurred related to:	
Current year	19,250
Prior years	575
Total incurred	19,825
Paid related to:	
Current year	(9,350)
Prior years	(7,650)
Total paid	(17,000)
Liability for claims and LAE, net of reinsurance	48,271
Add reinsurance recoverable	14,163
Balance at September 30,	$ 62,434

ASU No. 2015-09 *(Continued)*

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2007	$ 3,000	$ 5,000	$ 5,500	$ 6,000	$ 6,800	$ 7,500	$ 8,500	$ 9,000	$ 9,050	$ 9,075
2008		3,500	5,750	6,500	7,500	7,750	8,250	8,500	9,000	9,500
2009			3,750	6,000	6,500	7,500	7,900	8,250	8,950	9,700
2010				3,750	6,250	7,250	7,750	8,900	9,700	9,950
2011					4,250	5,500	6,750	8,000	8,950	9,250
2012						4,125	5,250	7,000	8,000	9,000
2013							4,500	5,750	7,250	7,750
2014								4,600	6,000	6,950
2015									4,750	6,125
2016										4,850
										$ 82,150
All outstanding liabilities before 2007, net of reinsurance										1,400
Liablities for claims and claim adjustment expenses net of reinsurance										$ 40,550

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ASU No. 2015-09 *(Continued)*

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of December 31, 2016	
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2007	$ 10,000	$ 9,900	$ 9,700	$ 9,800	$ 9,750	$ 9,750	$ 9,600	$ 9,650	$ 9,575	$ 9,550	5	39
2008		10,950	11,000	10,500	10,750	10,850	10,600	10,250	10,150	10,250	30	37
2009			12,000	11,750	11,500	10,900	10,900	10,850	10,750	10,500	90	38
2010				12,250	12,500	12,550	12,400	12,200	12,150	12,000	300	36
2011					12,300	12,500	12,650	12,750	12,800	12,850	900	35
2012						12,800	12,900	12,750	12,700	12,700	1,100	34
2013							13,000	13,250	13,100	13,150	1,500	31
2014								13,500	13,250	13,300	2,100	29
2015									13,500	13,250	3,100	26
2016										13,750	5,000	22
										$ 121,300		

ASU No. 2015-09 *(Continued)*

	December 31, 2016
Net outstanding liabilities	
Homeowners' insurance	$ 40,550
Other short-duration insurance lines	1,976
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	42,526
Reinsurance recoverable on unpaid claims	
Homeowners insurance	13,880
Other insurance lines	283
Total reinsurance recoverable on unpaid claims	14,163
Insurance lines other than short-duration	3,315
Unallocated claims adjustment expenses	2,420
Other	10
	5,745
Total gross liability for unpaid claims and claim adjustment expense	$ 62,434

ASU No. 2015-09 *(Continued)*

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Homeowners insurance	33.8%	14.9%	8.5%	7.2%	6.6%	4.9%	5.4%	5.8%	2.7%	0.3%

ASU No. 2015-09 *(Continued)*

- **Additional Disclosures**
  - For liabilities for unpaid claims and claim adjustment expenses reported at present value:
    - the aggregate amount of discount deducted to derive at the liability for unpaid claims and
    - claim adjustment expenses for each balance sheet presented, the amount of interest accretion recognized for each period of income statement presented, and the income statement line item that includes interest accretion

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ASU No. 2016-01, *Financial Instruments-Recognition and Measurement of Financial Assets and Financial Liabilities*

Effective Dates:

- Public Companies
  - Fiscal years beginning after Dec 15, 2017

- Nonpublic Companies
  - Fiscal years beginning after Dec 15, 2018

ASU No. 2016-01 (Continued)

Key Provisions:

- Enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information
- Eliminates the available-for-sale equity securities
- All equities valued at fair value and income comes through the income statement not the statement of comprehensive income
- Eliminates need for non-public companies to make disclosures in financial statement notes regarding fair value
- Public companies still have to make the fair value disclosures

ASU No. 2016-02, *Leases*

Effective Dates:

- Public Companies
  - Fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2018

- Nonpublic Companies
  - Fiscal years beginning after Dec. 15, 2019, and for interim periods within fiscal years beginning after Dec. 15, 2020

ASU No. 2016-02 (Continued)

Key Provisions:

- Results in a more faithful representation of the rights and obligations arising from leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position

- Results in fewer opportunities for organizations to structure leasing transactions to achieve a particular accounting outcome

- Improves understanding and comparability of lessees' financial commitments regardless of the manner they choose to finance the assets

- Provides users of financial statements with additional information about lessors' leasing activities and lessors' exposure to credit and asset risk as a result of leasing

- Clarifies the definition of a lease to address practice issues that were raised about the previous definition of a lease and to align the concept of control

ASU No. 2016-02 (Continued)

This guidance does not apply to any of the following:

- Leases of Intangible assets (see Topic 350, Intangibles—Goodwill and Other)
- Leases to explore for or use minerals, oil, natural gas, and similar nonregenerative resources
- Leases of biological assets, including timber (see Topic 905, Agriculture)
- Leases of inventory (see Topic 330, Inventory)
- Leases of assets under construction (see Topic 360, Property, Plant, and Equipment)

ASU No. 2016-05, *Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*

Effective Dates

- Public Companies
  - Fiscal years beginning after Dec. 15, 2016, and interim periods within those fiscal years.

- Nonpublic Companies:
  - Fiscal years beginning after Dec. 15, 2017, and interim periods within fiscal years beginning after Dec. 15, 2018.

ASU No. 2016-05 (Continued)

Key Provisions

The derivative instrument that is the subject of a novation may be the hedging instrument in a hedging relationship that has been designated under Topic 815, Derivatives and Hedging. The standard states that:

- a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not result in a requirement to de-designate that hedging relationship and discontinue the application of hedge accounting, as long as all other hedge accounting criteria continue to be met

ASU No. 2016-06, *Contingent Put and Call Options in Debt Instruments*

Effective Dates:

- Public Companies
  - Fiscal years beginning after Dec. 15, 2016, and interim periods within those fiscal years.

- Nonpublic Companies
  - Fiscal years beginning after Dec. 15, 2017, and interim periods within fiscal years beginning after Dec. 15, 2018

ASU No. 2016-06 (Continued)

Key Provisions:

- Brings new detail to the "clearly and closely related" criterion as related to embedded derivatives.

- Embedded derivatives to be separated from the host contract and accounted for separately as derivatives if certain criteria are met.

- One of those criteria is that the economic characteristics and risks of the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contract.

ASU No. 2016-06 (Continued)

U.S. GAAP states that:

- Call or put options that can accelerate the repayment of principal on a debt instrument meet the “clearly and closely related” criterion if they can be indexed ***only*** to interest rates or credit risk

ASU No. 2016-06 (Continued)

The standard clarifies:

- That an entity is required to assess the embedded call or put options solely in accordance with a four-step decision sequence that was created by FASB's Derivatives Implementation Group.

- That when a call or put option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call or put option is related to interest rates or credit risks.

ASU No. 2016-07, *Simplifying the Transition to the Equity Method of Accounting*

Effective date:

- Year beginning January 1, 2017 and interim periods therein

Key provisions:

- Eliminates requirement to retrospectively apply the equity method of accounting when an investment qualifies for the equity method and was previously accounted for by a another method.

ASU No. 2016-09, *Employee Share-Based Payment Accounting Improvements*

Effective date:

- Public Companies
  - Years beginning January 1, 2017 and interim periods therein
- Nonpublic Companies
  - Years beginning January 1, 2018 and interim periods therein

ASU No. 2016-09 *(Continued)*

- **Key provisions:**
  - **Accounting for Income Taxes**: Tax related to share-based payments at settlement or expiration are recognized in the income statement. Recognize excess tax benefits regardless of whether the benefit reduces taxes payable in current period
  - **Cash Flows for Excess Tax Benefits**: Tax related cash flows resulting from share-based payments are to be reported in operating activities
  - **Forfeitures**: Election made to estimate forfeitures or account for them as they occur
  - **Minimum Statutory Tax Withholding**: Permits withholding up to the maximum statutory tax rate without causing award to be liability classified
  - **Cash Flows for Employee Taxes Paid**: Cash payments made to taxing authorities on the employees' behalf for withheld shares should be included in financing activities

ASU No. 2016-09 *(Continued)*

- **Nonpublic Companies :**
  - **Expected Term**: May make an accounting policy election to apply a practical expedient to estimate the expected term for all awards
  - **Intrinsic Value**: May make a one-time election to switch from measuring all liability-classified awards at fair value to intrinsic value

ASU No. 2016-13, *Accounting for Financial Instruments – Credit Losses*

- **Effective date:**
  - Public Companies:
    - If SEC filer, years beginning January 1, 2020 and interim periods therein
    - If not SEC Filer, years beginning January 1, 2021 and interim periods therein
  - Nonpublic Companies:
    - Years beginning January 1, 2022 and interim periods therein

ASU No. 2016-13 *(Continued)*

- **Key provisions:**
  - **Reinsurance receivables, other receivables, loans, held to maturity debt securities, net investments in leases, off balance sheet credit exposures**: For most financial instruments measured at amortized cost a new "expected credit loss" should be estimated and an allowance recorded. Recognized in net income
  - **Available for sale debt securities**: An allowance for credit losses is recognized as a contra-account to amortized cost rather than a reduction of amortized cost required by the current impairment model. Recognized through other comprehensive income
  - **Beneficial interests**: Amended to conform with new credit loss model for held to maturity and available for sale securities

ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*

- **Effective date:**
  - Public Companies:
    - Years beginning January 1, 2018 and interim periods therein
  - Non-public companies:
    - Annual disclosures year ended December 31, 2019
    - Interim disclosures first period in 2020

ASU No. 2016-15 *(Continued)*

- **8 Cash Flow Issues:**
  1. **Debt prepayment or debt extinguishment costs:** Cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities
  2. **Settlement of zero coupon debt instruments:** Cash payments for the settlement should be classified as cash outflows for operating activities for the portion attributable to interest and as cash outflows for financing activities for the portion attributable to principal
  3. **Contingent consideration payments made after a business combination:** Cash payments made soon after an acquisition's consummation date should be classified as cash outflows for investing activities. Payments made thereafter should be classified as cash outflows for financing activities up to the amount of the original contingent consideration liability. Payments made in excess of the amount of the original contingent consideration liability should be classified as cash outflows for operating activities.

ASU No. 2016-15 *(Continued)*

4. **Proceeds from the settlement of insurance claims:** Cash payments received from the settlement of insurance claims should be classified on the basis of the nature of the loss (or each component loss, if an entity receives a lump sum settlement)
5. **Proceeds from the settlement of corporate owned life insurance (COLI) policies, including bank owned life insurance (BOLI) policies:** Cash payments received from the settlement of COLI policies should be classified as cash inflows from investing activities. Cash payments for premiums on COLI policies may be classified as cash outflows for investing, operating, or a combination of investing and operating activities.

ASU No. 2016-15 *(Continued)*

6. **Distributions received from equity method investments**: Any distributions received up to the amount of cumulative equity earnings would be considered a return on investment and classified in operating activities. Any excess distributions would be considered a return of investment and classified in investing activities. Alternatively, an investor can choose to classify the distributions based on the nature of activities of the investee that generated the distribution. If the necessary information is subsequently not available for an investee to determine the nature of the activities, the entity should use the cumulative earnings approach for that investee and report a change in accounting principle on a retrospective basis.

ASU No. 2016-15 *(Continued)*

7. **Beneficial interests in securitization transactions:** A transferor's beneficial interest obtained in a securitization of financial assets should be disclosed as a noncash activity. Cash receipts from a transferor's beneficial interests in securitized trade receivables should be classified as cash inflows from investing activities
8. **Separately identifiable cash flows and application of the predominance principle:** Entities should use reasonable judgement to separate cash flows. In the absence of specific guidance, an entity should classify each separately identifiable cash source and use on the basis of the nature of the underlying cash flows. For cash flows with aspects of more than one class that cannot be separated, the classification should be based on the activity that is likely to be the predominate source or use of cash flow.

ASU No. 2014-09, Revenue from Contracts with Customers

- **In May 2014, FASB issued ASU No. 2014-09. Subsequent to its issuance, FASB issued the following amendments to provide additional clarification:**
  - ASU No. 2015-14, Deferral of the Effective Date
  - ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross Versus Net)
  - ASU No. 2016-10, Identifying Performance Obligations and Licensing
  - ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients

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