

# SEC Disclosures on Loss Reserves

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## Outline

- Who's in charge of US GAAP?
- SEC Process
  - Required Filings (10K, 10Q, 8K)
  - Guide 6
  - Financial Statements/Notes vs. MD&A
  - Correspondence
- FASB Disclosures vs. SEC Guide 6

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## Who's In Charge of US GAAP?

- A. FASB
- B. SEC
- C. CFO
- D. Accounting Controller
- E. Accounting Policy department
- F. External Auditor
- G. All of the above?

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## Who's In Charge of US GAAP?

- A. FASB
- B. SEC
- C. CFO
- D. Accounting Controller
- E. Accounting Policy department
- F. External Auditor
- G. All of the above?

ANSWER: It depends.

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## Who's In Charge of US GAAP?

- A. Who sets the industry rules  
(SEC, FASB)
- B. Who polices the industry practice  
(SEC)
- C. Who sets the company rules  
(CFO, Controller, Accounting Policy)
- D. Who polices company practice**  
(SEC, Accounting Policy, **[internal &]** External Auditor)

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## Required SEC Filings

- 10-K Annual Filing
- 10-Q Quarterly Filing – can reference 10-K  
*More abbreviated than 10-K*
- 8-K Interim Filing  
*Within 4 business days of major events*  
*E.g., Major cats, Major litigation, Mergers, etc.*

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## Guide 6

What is an Industry Guide?

SEC requirements for specific industries

Guide 1 – utilities, Guide 2 – Oil & Gas, etc.

Guide 6 –

*“Disclosures concerning unpaid claims and claim adjustment expenses of property-casualty insurance underwriters”*

Split into (A) Discussion Topics, and (B) Disclosures

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## Guide 6 – Discussion topics

- *Nature of changes to prior year reserves*
- *Material reinsurance transactions*
- *Significant reserving assumptions, recent changes*
- *Nature of recent changes in ceded reinsurance*
- *Business mix changes*
- *Payment pattern changes*
- *Unusual large losses/gains*
- *FX effects*

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## Guide 6 – Disclosures (1)

- Reconciliation of claim reserves (roll forward)
  - *Beginning reserves*
  - *Incurred (current vs. prior AYs)*
  - *Paid (current vs. prior AYs)*
  - *Ending reserves*

## Guide 6 – Disclosures (2)

- Loss Reserve Development
  - *10 year history of reserve development*
  - *For each year's total reserve, not by AY*
  - *Cumulative paid runoff on same basis*
  - *Total change from initial reserve estimate*
  - *No dictated template.*

## Guide 6 – Disclosures (2-cont.)

### Loss Reserve Development (Diff from US Stat.)

- SEC's 11 years (i.e., 10 prior plus now) vs. Stat's 10 years
- Mergers/Acquisitions/Divestitures
  - SEC – Don't restate prior. Runoff pre-M.A.D. book
  - Stat – Restate as if always had current entities/ops.
- Runoff of total reserve vs. Runoff of AY Incurred
  - SEC – no need for "All Prior"
  - US Stat – have to include "All Prior" AYs somehow.
- SEC's one triangle vs. Multiple Sched. P lines

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## Guide 6 – Disclosures (3)

- If explicit provision for inflation – explain
- If implicit provision - explain how management concludes the "implicit provision is adequate"
  - Above also applies to any combination of factors that would cause future changes in "claim severities"
  - Not much focus on this

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## Guide 6 – Disclosures (3-cont.)

- Stat vs. GAAP difference – amount & explanation
- Discounting –
  - amount,
  - impact (balance sheet, earnings –i.e. amoritization),
  - where done (i.e., types of business)

## Fin'l Stmnts/Notes vs. MD&A

- Financial Statements and Notes are Audited
- MD&A is NOT AUDITED!
  - *“Because it is required by the SEC rather than by accounting standards, the auditor engaged to audit the corporation’s financial statements normally treats MD&A as “accompanying information” that is not audited in the context of the audit of the financial statements” –*  
Financial Accounting Standards Board – Standards for Management’s Discussion and Analysis – April 1999

## SEC Correspondence

- Comment Letters & Responses – made public (*eventually*)
- Dear CFO letters (to entire industry)
- SEC comment/correspondence is not (necessarily) a dictate
  - *Dialog, give & take may occur.*

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## Other SEC Correspondence

- Speeches
- Conferences

### OTHER

- Staff Accounting Bulletins (e.g., Topic 5 – Misc.)
  - *5W. Contingency Disclosures Regarding Property-Casualty Insurance Reserves for Unpaid Claim Costs*

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## FASB Disclosures vs. SEC Guide 6

- In addition vs. replacement to Guide 6?
- Academy meeting with SEC
- Future Academy Publication
  - Practice Note, White Paper, ?

## SEC Disclosures

Questions?