

THE NONQUALIFIED ADVISOR

An Independent Resource for Plan Sponsors and Participants of Nonqualified Plans

Client News Bulletin

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New Accounting Rules Possible For BOLI/COLI

In an effort to align U.S. GAAP with international accounting standards and to clarify the limited guidance on accounting for insurance, the Financial Accounting Standards Board (FASB) issued an "Invitation to Comment" on a proposal to review the accounting for insurance contracts by insurers and policyholders.

The comprehensive review would be a joint project with the International Accounting Standards Board (IASB) to develop a comprehensive standard for the accounting for insurance. The new standard would supersede all previous guidance on life insurance, including FTB 85-4, EITF 06-4 and EITF 06-5.

The IASB preliminary review and the FASB discussion primarily focused on the accounting by insurers; however, the following issues may affect employers with split dollar arrangements and BOLI/COLI policies.

- 1) What constitutes "transfer of significant risk?"
- 2) Should more stringent risk transfer conditions apply to all insurance contracts, such as the new risk transfer conditions for reinsurance contracts?
- 3) Is clarification needed for the accounting for cash surrender value given the recent guidance that gave more flexibility in accounting for the investment in life insurance?

Please note, FASB's announcement is merely an Invitation to Comment. FASB has not discussed, deliberated or reached any tentative conclusions about the accounting for life insurance.

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