

MINUTES



Financial Accounting
Standards Board

To: Board Members
From: Insurance Contracts Team
(Jourdan, ext. 273)
Subject: Minutes of the April 21, 2010,
Joint Board Meeting: Insurance
Contracts **Date:** May 20, 2010
cc: FASB: Bielstein, Golden, Stoklosa, Chookaszian, Posta, Guasp, Sutay,
Klimek, Gabriele, McGarity, Proestakes, Cropsey, Trench, Lott, Hood,
Brickman, Galloway (GASB), FASB Intranet; IASB: Leisenring, Clark, van
der Veen, Hack, Jordan, Teixeira

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Accounting Standards Update.

Topic: Insurance Contracts—Risk
Adjustments and Residual Margins

Basis for Discussion: Board Memorandum Nos. 43A and 43B

Length of Discussion: 8:00 a.m. to 11:30 a.m. (Eastern)

Attendance:

Board members present: FASB: Herz, Smith, Siegel, Seidman
and Linsmeier (via video)

IASB: Tweedie, Cooper, Gelard
Leisenring, McConnell, Engström,
Smith, Finnegan, Wei-Guo, Danjou,
Gomes,
Kalavacherla, Garnett, McGregor,
Yamada

Board member absent: None
Staff in charge of topic: van der Veen

Other staff at Board table: IASB: Clark, Hack,
Staff participating by video: FASB: Golden, Cropsey, Trench,
Proestakes, Jourdan, Brickman,

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of an Exposure Draft addressing insurance contracts.

The Board's technical plan calls for that Exposure Draft to be issued in the second quarter of 2010.

Summary of Decisions Reached:

The Boards discussed the two approaches to margins that the Boards are considering for insurance contracts:

1. A separate risk adjustment and a residual margin
2. A single composite margin.

The purpose of the discussion was to develop these approaches further. The Boards intend to select one of these approaches at the May 2010 Joint Board meeting.

Risk Adjustment and Residual Margin

The Boards provided staff with input on the objective and other draft language for the risk adjustment and asked the staff to develop further the objective and other guidance.

The Boards decided tentatively that the residual margin should be part of the insurance liability rather than a separate liability outside the insurance liability. The Boards also decided tentatively that the residual margin should be disclosed separately. (Vote—IASB: 10 to 4, 1 absent; FASB: 4 to 1)

The Boards discussed whether interest should be accreted on the residual margins:

1. The IASB decided tentatively that interest should be accreted. (Vote—10 to 4, 1 absent)
2. The FASB decided tentatively that interest should not be accreted. (Vote—4 to 1)

Composite Margin

The Boards tentatively agreed that if the initial measurement of an insurance contract results in a negative day-one difference:

1. The insurer should recognize that difference (loss) immediately in profit or loss. (Vote—IASB: 14 to 0, 1 absent; FASB: unanimous)
2. For this purpose, a day-one loss would arise only if, at inception, the expected present value of the outflows exceeds the expected present value of the premiums. In other words, no separate risk adjustment would be included in determining whether there is a day-one loss under a composite margin approach. (Vote—IASB: 13 to 1, 1 absent; FASB: unanimous)

The Boards decided tentatively that the composite margin should be:

1. Released over both the coverage period (during which the insurer provides insurance coverage) and the claims handling period (during which the insurer is expected to pay claims) (Vote—IASB: 11 to 2, 1 abstain, 1 absent; FASB: 3 to 2)
2. Displayed with the insurance liability rather than a separate liability outside the insurance liability (Vote—13 to 1, 1 absent; FASB: 4 to 1)
3. Disclosed separately.

The Boards asked that the staff research an approach whereby the composite margin is remeasured.

The Boards also discussed whether interest should be accreted on the composite margin.

1. The IASB tentatively decided that interest should be accreted. (Vote—10 to 4, 1 absent)
2. The FASB tentatively decided that no interest should be accreted. (Vote—4 to 1)

General Announcements: None.