

MINUTES



Financial Accounting
Standards Board

To: Board Members
From: Insurance Contracts Team
(Jourdan, ext. 273)
Subject: Minutes of the May 19, 2010, Joint Board Meeting: Insurance Contracts
Date: May 27, 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—Unbundling and Scope

Basis for Discussion: Board Memos No. 45E through No. 45H

Length of Discussion: 5:00 a.m. to 7:15 p.m. (Eastern)

Attendance:

Board members present: FASB: Herz, Smith, Siegel, Seidman, and Linsmeier

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

Staff in charge of topic:	van der Veen
Other staff at Board table:	IASB: Clark, Hack and Upton
Staff participating by video:	FASB: Cropsey, Trench, Proestakes, Jourdan, Brickman, and Golden

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:

At this meeting, the Boards discussed unbundling and the scope for a forthcoming Exposure Draft on insurance contracts.

Unbundling

The Boards discussed a possible guiding principle for unbundling, built around the notion of significant interdependence. They asked the staff to refine the guidance supporting the proposed principle so as to explain more clearly how an insurer would assess whether interdependence is significant. If the refined guidance cannot address this point, the Boards may need to review the proposed principle at a future meeting. The Boards tentatively decided that account balances of account-driven contracts should be unbundled. For this purpose, the characteristics of these contracts will be defined in accordance with the guidance in U.S. GAAP in *FASB Accounting Standards Codification*TM Subtopic 944-20. (Vote—FASB: unanimous; IASB: unanimous)

On embedded derivatives:

1. The IASB decided tentatively that embedded derivatives should be unbundled when the IASB's existing standards on financial instruments would require this. (Vote—IASB: 9 to 6)
2. The FASB decided tentatively that embedded derivatives should be unbundled using the unbundling principle being developed for insurance contracts. (Vote—FASB: 4 to 1)

In addition, the Boards tentatively decided that unbundling should be prohibited except in cases where it was required. (Vote—FASB: unanimous; IASB: unanimous)

Scope

The Boards tentatively decided that the scope of the future standard on insurance contracts should:

1. Exclude fixed-fee service contracts (Vote—FASB: unanimous; IASB: 11 to 4)
2. Not exclude financial guarantee contracts, defined as contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. (Vote—FASB: 4 to 1; IASB: 13 to 2)

The Boards noted that the proposed definition of an insurance contract:

1. Captures financial guarantee contracts, as defined above, but
2. Does not capture contracts that pay out regardless of whether the counterparty holds the underlying debt instrument, and
3. Does not capture contracts that pay out on a change in credit rating or change in credit index, rather than on the failure of a specified debtor to make payments when due. Thus, financial guarantee contracts, as defined above, would be within the scope of the standard on insurance contracts.

The contracts described in (2) and (3) above would be within the scope of standards on financial instruments.

Next Steps

The Boards will continue their discussion of this project at the joint Board meeting on June 1.

General Announcements: None.