MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Insurance Contracts Team (Montgomery, ext. 445)
Subject:	Minutes of the February 18, 2011, Joint Board Meeting: Insurance Contracts
Date:	February 28, 2011
cc:	FASB: Bielstein, Golden, Stoklosa, Chookaszian, Posta, Guasp, Sutay, Klimek, Gabriele, McGarity, Proestakes, Lott, Hood, Brickman, Weiner, Kuhaneck, Lindemuth, Handy, Montgomery, Galloway (GASB), FASB Intranet; IASB: Clark, Hack, Pryde, Zeitler, d'Eri, Vermaak, Yeoh, 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—Discount Rate, Cash Flows, Risk Adjustment, Gains and Losses at Inception, Unlocking Margins, Presentation
Basis for Discussion:	FASB Memo Nos. 58B, 58D, 58F, 58G, 58K, 58L, 58M / IASB Agenda Papers 3B, 3D, 3F, 3G, 3K, 3L, 3M
Length of Discussion:	3:30am to 7:45am (EST)

Attendance:

Board members present:	FASB: Golden, Linsmeier, Seidman, Smith, and Siegel IASB: Tweedie, Cooper, Danjou, Engström, Finnegan, Gomes, Kalavacherla, König, McConnell,

	McGregor, Pacter, J. Smith, Yamada, and Zhang
Board member absent:	None
Staff in charge of topic:	Weiner, Yeoh, and Pryde
Other staff at Board table:	IASB: Clark, Hack, Zeitler, d'Eri, and Vermaak
Staff participating by video:	FASB: Hildebrand, Lindemuth, Montgomery, and Proestakes

Type of Document and Timing Based on the Technical Plan:

Please refer to the current technical plan for information about the expected release dates of exposure documents and final standards.

Summary of Decisions Reached:

Discount Rate for Nonparticipating Contracts

The Boards tentatively decided to confirm the approach in the IASB's Exposure Draft, *Insurance Contracts*, and the FASB's Discussion Paper, *Preliminary Views on Insurance Contracts*, that the objective of the discount rate is to adjust the future cash flows for the time value of money and to reflect the characteristics of the insurance contract liability. (Vote – IASB: 15 to 0; FASB 5 to 0)

The Boards tentatively decided not to prescribe a method for determining the discount rate and that the discount rate should:

1. Be consistent with observable current market prices for instruments with cash flows whose characteristics reflect those of the insurance contract liability, including timing, currency, and liquidity, but excluding the effect of the insurer's nonperformance risk
2. Exclude any factors that influence the observed rates but that are not relevant to the insurance contract liability (for example, risks not present in the liability but present in the instrument for which the market prices are observed, such as any investment risk taken by the insurer that cannot be passed to the policyholder)
3. Reflect only the effect of risks and uncertainties that are not reflected elsewhere in the measurement of the insurance contract liability. (Vote – IASB: 15 to 0; FASB 5 to 0)

The Boards plan to explore in a future meeting whether a practical expedient should be allowed for determining the discount rate in specific circumstances.

Cash Flows Included in Contract Measurement

The Boards discussed the proposed requirement that an insurer should measure an insurance contract using an explicit, unbiased, and probability weighted estimate (that is, expected value) of the future cash outflows, less future cash inflows that will arise as the insurer fulfils the insurance contract.

In relation to expected value, the Boards tentatively decided to clarify that:

1. The measurement objective of expected value refers to the mean that considers all relevant information.
2. Not all possible scenarios need to be identified and quantified, provided that the estimate is consistent with the measurement objective of determining the mean. (Vote – IASB: 15 to 0; FASB 5 to 0)

In relation to costs included in fulfillment cash flows, the Boards tentatively decided:

1. To clarify that all costs that an insurer will incur directly in fulfilling a portfolio of insurance contracts should be included in the cash flows used to determine the insurance liability, including:
    a. Costs that relate directly to the fulfillment of the contracts in the portfolio, such as payments to policyholders, claims handling, etc. (described in paragraph B61 of the Exposure Draft)
    b. Costs that are directly attributable to contract activity as part of fulfilling that portfolio of contracts and that can be allocated to those portfolios
    c. Such other costs as are specifically chargeable to the policyholder under the terms of the contract
2. To confirm that costs that do not relate directly to the insurance contracts or contract activities should be recognized as expenses in the period in which they are incurred
3. To provide application guidance based on IAS 2, *Inventories*, and IAS 11, *Construction Contracts*
4. To eliminate the term *incremental* from the discussion of fulfillment cash flows that was proposed in the Exposure Draft and the Discussion Paper (that is, paragraph B61 of the Exposure Draft). (Vote – IASB: 14 to 1; FASB 4 to 1)

Explicit Risk Adjustment

The Exposure Draft proposed to include an explicit risk adjustment in the measurement of an insurance liability. The Discussion Paper did not propose to include an explicit risk adjustment in the measurement of an insurance liability.

The Boards tentatively decided that if there are techniques that could faithfully represent the risk inherent in insurance liabilities, the inclusion of an explicit risk adjustment in the measurement of those liabilities would provide relevant information to users. (Vote – IASB: 14 to 1; FASB 5 to 0)

The Boards plan to consider in a future meeting:

1. How insurers have determined a risk adjustment in practice
2. Whether to recognize an explicit risk adjustment
3. Whether the residual or composite margin should be unlocked in a way that reflects changes in the insurance risk assumed by an insurer.

The Recognition of Gain and Loss at Inception

The Boards tentatively confirmed the proposal in the Exposure Draft and the Discussion Paper that an insurer should not recognize any gain at inception of an insurance contract. The Boards tentatively confirmed the proposal in the Exposure Draft and the Discussion Paper that an insurer should recognize any loss on day one immediately when it occurs, in earnings. (Vote – IASB: 15 to 0; FASB 5 to 0)

Unlocking the Residual or Composite Margin

The Exposure Draft and the Discussion Paper proposed that the residual or composite margin would be locked in at inception and recognized in earnings over time. The Boards considered whether and how the residual or composite margin might be unlocked.

The Boards were not asked to make any decisions on this topic.

Refresher on Presentation Models

The Boards considered a refresher on the approaches to presentation that were considered when the Exposure Draft and the Discussion Paper were being developed, in order to provide background information for future Board discussion.

The Boards were not asked to make any decisions on this topic.

General Announcements: None.