MINUTES

To:	Board Members
From:	Insurance Contracts Team (Lindemuth, ext. 442)
Subject:	Minutes of the May 31, 2011, Joint Board Meeting: Insurance Contracts
Date:	June 2, 2011

cc: FASB: Bielstein, Golden, Stoklosa, Chookaszian, Posta, Guasp, Sutay, Klimek, Gabriele, McGarity, Proestakes, Lott, Hood, Brickman, Weiner, Kuhaneck, Hildebrand, Lindemuth, 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— Reinsurance
Basis for Discussion:	FASB Memo No. 69A IASB Agenda Papers 3A
Length of Discussion:	May 31: 7:00am to 9:30am (EST)

Attendance:

Board members present:	FASB: Buck, Golden, Linsmeier, Seidman, Schroeder, Smith, and Siegel
Board members participating by video:	IASB: Tweedie, Cooper, Danjou, Engström, Finnegan, Gomes, Kalavacherla, König, McGregor, McConnell, Pacter, Scott, Smith, Wei-Guo, and Yamada

Staff in charge of topic:	FASB: Weiner IASB: Yeoh and Pryde
Staff members present:	FASB: Cosper, Proestakes, Kuhaneck, North, Lindemuth, and Montgomery
Other staff participating by video:	IASB: Clark, Hack, Zeitler, d'Eri, Ruta, and Vermaak

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:

The IASB and the FASB continued their discussions on insurance contracts by discussing the accounting for reinsurance. The Boards tentatively decided the following:

1. If a reinsurance contract does not transfer significant insurance risk because the assuming company is not exposed to a loss (with loss defined as an excess of the present value of the cash outflows over the present value of the premiums), the reinsurance contract is deemed to transfer significant insurance risk if substantially all of the insurance risk relating to the reinsured portions of the underlying insurance contracts is assumed by the reinsurer. Substantially all of the insurance risk relating to the reinsurance portions of the underlying insurance contracts is not transferred unless the economic benefit transferred to the reinsurer for its respective portion of the underlying policies is virtually the same as the economic benefit previously held by the cedant.

   (FASB: Unanimous, IASB: Unanimous)

2. An insurer should assess the significance of insurance risk at the individual contract level. Contracts entered into simultaneously with a single counterparty for the same risk, or contracts that are otherwise

interdependent that are entered into with the same or a related party, should be considered a single contract for the purpose of determining risk transfer.

(FASB: Unanimous, IASB: Unanimous)

3. A cedant should not recognize a reinsurance asset until the underlying contract is recognized unless the amount paid under the reinsurance contract reflects aggregate losses of the portfolio of underlying contracts covered by the reinsurance contract. If the reinsurance coverage is based on aggregate losses, the cedant should recognize a reinsurance asset when the reinsurance contract coverage period begins. An onerous contract liability should be recognized if management becomes aware in the pre-coverage period that the reinsurance contract has become onerous.

   (FASB: Unanimous, IASB: Unanimous)

4. The ceded portion of the risk adjustment should represent the risk being removed through the use of reinsurance.

   (IASB: Unanimous)

5. If the present value of the fulfillment cash flows (including the risk adjustment under the IASB's tentative decisions) for the reinsurance contract is:

   a. Less than zero and the coverage provided by the reinsurance contract is for future events, the cedant should establish that amount as part of the reinsurance recoverable, representing a prepaid reinsurance premium, and should recognize the cost over the coverage period of the underlying insurance contracts.

   (FASB: Unanimous, IASB: 8 to 7)

   b. Less than zero and the coverage provided by the reinsurance contract is for past events, the cedant should recognize the loss immediately.

   (FASB: Unanimous, IASB: Unanimous)

   c. Greater than zero, the cedant should recognize a reinsurance residual or composite margin.

   (FASB: Unanimous, IASB: 11 to 4)

6. The cedant should estimate the present value of the fulfillment cash flows for the reinsurance contract, including the ceded premium and without reference to the residual/composite margin on the underlying contracts, in the same manner as the corresponding part of the present value of the fulfillment cash flows for the underlying insurance contract or contracts, after remeasuring the underlying insurance contracts on initial recognition of the reinsurance contract.

   (FASB: Unanimous, IASB: 14 to 1)

7. When considering nonperformance by the reinsurer:

   a. The cedant should apply the impairment model for financial instruments when determining the recoverability of the reinsurance asset.
   b. The cedant should consider all facts and circumstances, including collateral, when assessing the risk of nonperformance by the reinsurer.
   c. The losses from disputes should be reflected in the measurement of the recoverable when there is an indication that current information and events suggest the cedant may be unable to collect amounts due according to the contractual terms of the reinsurance contract.

   (FASB: Unanimous, IASB: Unanimous)

General Announcements: None.