

MINUTES



To: Board Members
From: Insurance Contracts Team
(Lindemuth, ext. 442)
Subject: Minutes of the June 13, 2011,
Joint Board Meeting: Insurance
Contracts **Date:** June 23, 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—Residual margin
and acquisition costs

Basis for Discussion: FASB Memo No. 70, 70B, 70C, 70D,
70E, 70F

IASB Agenda Papers 1, 1B, 1C, 1D,
1E, 1F

Length of Discussion: 6:30am to 10:15am (EST)

Attendance:

Board members present: FASB: Buck, Golden, Linsmeier,
Seidman, Schroeder, Smith, and Siegel

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: Cospers IASB: Clark, Hack, Zeitler, d'Eri, Ruta, and Vermaak
Other staff participating by video:	FASB: Proestakes, Brickman, Kuhaneck, and Lindemuth

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. They considered whether and how to unlock the residual margin, allocation methods for the residual margin, and the accounting for acquisition costs.

Whether to Unlock the Residual Margin

The IASB tentatively decided that the residual margin should not be locked in at inception.

The FASB indicated that it would not favor unlocking the residual margin after inception if it were to adopt an approach that includes both a risk adjustment and a residual margin rather than the single-margin approach, which was tentatively decided upon.

(FASB: Unanimous; IASB: 8 Yes, 7 No)

How to Unlock the Residual Margin

The IASB tentatively decided that an insurer should:

1. Adjust the residual margin for favorable and unfavorable changes in the estimates of future cash flows used to measure the insurance liability. Experience adjustments would be recognized in profit or loss.

(IASB: 11 Yes, 4 No)

2. Not limit increases in the residual margin.

(IASB: 12 Yes, 3 No)

3. Recognize changes in the risk adjustment in profit or loss in the period of the change.

(IASB: 9 Yes, 6 No)

4. Make any adjustments to the residual margin prospectively.

(IASB: 10 Yes, 5 No)

The IASB discussed whether changes in discount rate should be recognized as an adjustment to the residual margin or in profit or loss in the period of the change to the extent that those changes create an accounting mismatch. No decision was made. The FASB did not vote on how to unlock the residual margin.

Allocation Methods for the Residual Margin

The IASB tentatively decided that:

1. The residual margin should not be negative.

(IASB: Unanimous)

2. Insurers should allocate the residual margin over the coverage period on a systematic basis that is consistent with the pattern of transfer of services provided under the contract.

(IASB: 9 Yes, 6 No)

Accounting for Acquisition Costs

The Boards tentatively decided that the acquisition costs to be included in the initial measurement of a portfolio of insurance contracts should be all of the direct costs that the insurer will incur in acquiring the contracts in the portfolio such as:

1. Direct costs of contract acquisition/origination.
2. The portion of employee's total compensation and payroll-related fringe benefits related directly to time spent performing any of the following activities for contracts that have been acquired/originated (FASB and

IASB) and contracts that have not been acquired/originated (IASB only), including:

- a. Underwriting
 - b. Policy issuance and processing
 - c. Medical and inspection
 - d. Sales force contract selling.
3. Costs directly related to the activities in (2).
 4. Direct response advertising.

The Boards tentatively decided to exclude indirect costs such as:

1. Software dedicated to contract acquisition
2. Equipment maintenance and depreciation
3. Agent and sales staff recruiting and training
4. Administration
5. Rent and occupancy
6. Utilities
7. Other general overhead
8. Advertising.

(FASB: Unanimous; IASB: 9 Yes, 6 No)

The FASB tentatively decided that the acquisition costs included in the cash flows of insurance contracts will be limited to those costs related to successful acquisition efforts.

(FASB: Unanimous)

The IASB tentatively decided that no distinction should be made between successful acquisition efforts and unsuccessful efforts.

(IASB: 9 Yes, 6 No)

Next Steps

Both Boards will continue their discussion on insurance contracts on June 15, 2011, by considering presentation in the statement of comprehensive income.

General Announcements: None.