MINUTES

To:	Board Members		
From:	Insurance Contracts Team (Silva, x445)		
Subject:	Minutes of the September 19, 2011, Board Meeting: Insurance Contracts	**Date:**	September 22, 2011
cc:	FASB: Bielstein, Cosper, Stoklosa, Chookaszian, Posta, Guasp, Sutay, Klimek, Gabriele, McGarity, Proestakes, Lott, Hood, Brickman, Weiner, Irwin, Alexander, Lindemuth, Silva, Galloway (GASB), FASB Intranet; IASB: Clark, Hack, Pryde, Zeitler, d'Eri, Obst, 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 an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic:	Insurance Contracts—Risk Adjustment and Disclosures
Basis for Discussion:	FASB Memo Nos. 73, 73A, 73B, 73C, 73D
Length of Discussion:	11:00 a.m. to 2:00 p.m. (EST)
Attendance:	
Board members present:	FASB: Seidman, Buck, Golden, Linsmeier, Schroeder, Smith, and Siegel IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Engström, Finnegan, Gomes, Kalavacherla, König,

	McConnell, Ochi, Pacter, Scott, Smith, and Zhang
Staff in charge of topic:	FASB: Weiner
	IASB: Pryde
Staff members present:	FASB: Cosper, Proestakes, Irwin, North, Alexander, Lindemuth, and Silva
	IASB: Clark, Hack, Zeitler, d'Eri, Ruta, Vermaak, and Obst

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 on the topic of disclosures. In addition, the IASB continued its discussions on the risk adjustment and listened to a report on the FASB's recent decisions on the single margin approach.

Disclosures

The Boards tentatively decided to retain the disclosures proposed in paragraphs 90–97 of the IASB's Exposure Draft, *Insurance Contracts*, with changes as follows:

1. To delete the requirement that an insurer shall not aggregate information relating to different reportable segments (paragraph 83 of the Exposure Draft) to avoid a conflict with the principle for the aggregation level of disclosures. The level of aggregation could thus vary for different types of qualitative and quantitative disclosures. However, the standard would add

to the examples listed in paragraph 84 of the Exposure Draft by stating that one appropriate aggregation level might be reportable segments.
(FASB: Unanimous, IASB: Unanimous)

2. To require the insurer to disclose separately the effect of each change in inputs and methods, together with an explanation of the reason for the change, including the types of contract affected.
(FASB: Unanimous, IASB: 14 to 1)

3. For contracts in which the cash flows do not depend on the performance of specified assets (that is, non-participating contracts), to require disclosure of the yield curve (or range of yield curves) used.
(FASB: Unanimous, IASB: 14 to 1)

4. To require the maturity analysis of net cash outflows resulting from recognized insurance liabilities proposed in paragraph 95(a) of the Exposure Draft to be based on expected maturities and to remove the option to base maturity analysis on remaining contractual maturities. Furthermore, within the context of time bands, the Boards decided to require the insurer to disclose, at a minimum, the expected maturities on an annual basis for the first five years and in aggregate for maturities beyond five years. In place of this disclosure, the FASB would rely on its tentative decisions relating to risk disclosures for financial institutions, as reached on its project on financial instruments at the FASB Board meeting on September 7, 2011. Those disclosures would apply to insurance entities.
(IASB: 14 to 1)

In addition, the IASB tentatively decided to delete the proposed requirement in paragraph 90(d) to disclose a measurement uncertainty analysis and to align (in due course) that disclosure with the disclosure for fair value measurements in

IFRS 13, *Fair Value Measurement*, as appropriate. The FASB decided to retain this disclosure.
(FASB: 5 to 2, IASB: 14 to 1)

Risk Adjustment: Objective and Confidence Level Disclosure

The IASB tentatively decided that:

1. The objective of risk adjustment should be the "compensation the insurer requires for bearing the uncertainty inherent in the cash flows that arise as the insurer fulfills the insurance contract" and that
2. The application guidance should clarify that:
    a. The risk adjustment measures the compensation that the insurer would require to make it indifferent between (i) fulfilling an insurance contract liability that would have a range of possible outcomes and (ii) fulfilling a fixed liability that has the same expected present value of cash flows as the insurance contract. For example, the risk adjustment would measure the compensation that the insurer would require to make it indifferent between (i) fulfilling a liability that has a 50 percent probability of being 90 and a 50 percent probability of being 110 and (ii) fulfilling a liability of 100.
    b. In estimating the risk adjustment, the insurer should consider both favorable and unfavorable outcomes in a way that reflects its degree of risk aversion. The Boards noted that a risk-averse insurer would place more weight on unfavorable outcomes than on favorable ones. (IASB: Unanimous)

In addition the IASB tentatively decided to retain the confidence level equivalent disclosure that had been proposed in paragraph 90(b)(i) of the Exposure Draft.
(IASB: 11 to 4)

Risk Adjustment: Techniques and Inputs

The IASB tentatively decided:

1. Not to limit the range of available techniques and the related inputs to estimate the risk adjustment and instead;
2. To retain in the application guidance the list of characteristics, as proposed in paragraph of B72 of the Exposure Draft, that a risk adjustment technique should exhibit if that technique is to meet the objective of the risk adjustment. (IASB: 12 to 3)

The IASB also tentatively decided to retain as examples the three techniques proposed in the Exposure Draft (confidence levels, conditional tail expectation, and cost of capital), together with the related application guidance.
(IASB: Unanimous)

Single Margin Approach

At its May 2011 meeting, the FASB tentatively decided that the insurance contract measurement model should use a single margin rather than an explicit risk adjustment and residual margin. The FASB staff reported on the tentative decisions reached on the single margin at the September 7 FASB Board meeting.

Next Steps

Both Boards will continue their discussion on insurance contracts in mid-October.

General Announcements: None.