MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Insurance Contracts Team (Silva, x445)
Subject:	Minutes of the December 15, 2011, and December 16, 2011, Joint Board Meetings: Insurance Contracts
Date:	December 21, 2011
cc:	Sutay

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—Participating Contracts, Discounting of the Liability for Incurred Claims, Unit of Account, and Onerous Contracts

Basis for Discussion: FASB Memo Nos. 77, 77A, 77B, 77C, 77D, 77E, 77F, 77G, 77H

Length of Discussion: December 15: 7:30 a.m. to 8:45 a.m. (EST)
December 16: 3:00 a.m. to 6:30 a.m. (EST)

Attendance:

Board members present: December 15:

FASB: Seidman, Golden, Linsmeier, Schroeder, Smith

	IASB: Hoogervorst, Cooper, Danjou, Engström, Finnegan, Gomes, Kalavacherla, König, McConnell, Ochi, Pacter, Scott, Smith, Zhang
	December 16:
	FASB: Seidman, Golden, Linsmeier, Schroeder, Siegel, Smith
	IASB: Hoogervorst, Cooper, Danjou, Engström, Finnegan, Gomes, Kalavacherla, König, Mackintosh, McConnell, Ochi, Pacter, Scott, Smith, Zhang
Staff in charge of topic:	FASB: Weiner
	IASB: Pryde
Staff members present:	FASB: Cosper, Brickman, Proestakes, Ampofo, Irwin, Alexander, Lindemuth, Silva, King
	IASB: Lloyd, Clark, Zeitler, Ruta, Vermaak, Knubley, 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 the following topics relating to insurance contracts: participating contracts, discounting of the liability for claims incurred, unit of account, and onerous contracts.

Participating Contracts

The FASB reported to the IASB their November 30 discussions about the measurement of the obligation from any nondiscretionary performance-linked participating features that both (1) contractually depend wholly or partly on the performance of other assets or liabilities of the insurer, or the performance of the insurer itself, and (2) are a component of an insurance contract's obligations. For those contracts, some or all of the cash flows to policyholders depend on cash flows generated by the underlying item. An underlying item is defined as the asset or liability (or group of assets or liabilities) on which the cash flows resulting from the participation feature depend.

Both the IASB and the FASB noted that their previous tentative decision meant they would measure the obligation for the performance-linked participation feature in a way that reflects how those underlying items are measured in U.S. GAAP/IFRS financial statements. That could be achieved by two methods, both of which lead to the same measurement:

1. Eliminating from the building-block approach changes in value not reflected in the measurement of the underlying items; or
2. Adjusting the insurer's current liability (that is, the contractual obligation incurred to date) to eliminate accounting mismatches that reflect timing differences (between the current liability and the measurement of the underlying items in the U.S. GAAP/IFRS statement of financial position) that are expected to reverse within the boundary of the insurance contract.

The Boards tentatively:

1. Confirmed that options and guarantees embedded in insurance contracts that are not separately accounted for as derivatives when applying the financial instrument requirements should be measured within the overall insurance contract obligation, using a current, market-consistent, expected value approach.

   (FASB: Unanimous, IASB: Unanimous)

2. Agreed that, when an insurer measures an obligation, which was created by an insurance contract liability, that requires payment depending wholly or partly on the performance of specified assets and liabilities of the insurer, that measurement should include all such payments that result from that contract, whether paid to current or future policyholders.

   (FASB: Unanimous, IASB: 13 to 1)

Discounting of the Liability for Claims Incurred

The Boards tentatively confirmed their earlier decision to require insurers to discount the liability for incurred claims (for contracts accounted for using the premium allocation approach) when the effects of discounting would be material. In addition, for contracts accounted for using the premium allocation approach, the Boards tentatively decided not to provide additional guidance on determining when the effect of discounting the liability for incurred claims would be material. However, the Boards tentatively decided to provide a practical expedient that would permit insurers not to discount portfolios where the incurred claims are expected to be paid within 12 months of the insured event, unless facts and circumstances indicate that payments will no longer occur within 12 months.

(FASB: Unanimous, IASB: Unanimous)

Unit of Account

The IASB noted that the objective of the risk adjustment is to reflect the compensation the insurer requires for bearing the uncertainty inherent in the cash flows of a portfolio that arise as the insurer fulfills the contract. The IASB tentatively decided that it would not specify further guidance on the unit of account for the risk adjustment.

(IASB: 9 to 6)

The IASB and the FASB also discussed the definition of a portfolio and the unit of account that should be used to determine and allocate the residual/single margin. No decision was made.

Onerous Contracts

The Boards tentatively decided that:

1. An insurance contract is onerous if the expected present value of the future cash outflows from that contract [plus, for the IASB, the risk adjustment] exceeds:
    a. The expected present value of the future cash inflows from that contract (for the pre-coverage period)
    b. The carrying amount of the liability for the remaining coverage (for the premium allocation approach).

    (FASB: Unanimous, IASB: Unanimous)

2. Insurers should perform an onerous contract test when facts and circumstances indicate that the contract might be onerous. The Boards also tentatively decided that they would provide application guidance about the facts and circumstances that could indicate that a contract is onerous.

    (FASB: Unanimous, IASB: Unanimous)

3. Onerous contracts identified in the pre-coverage period should be measured on a basis that is consistent with the measurement of the liability recognized at the start of the coverage period. Similarly, onerous contracts identified under the premium allocation approach should be measured on a basis that is consistent with the measurement of the liability for claims incurred. The Boards noted that these decisions require further consideration in view of the Boards' tentative decision to introduce

a practical expedient that would permit insurers not to discount claims incurred that are expected to be paid within 12 months of the insured event.

(FASB: Unanimous, IASB: Unanimous)

Next Steps

Both Boards will continue their joint discussions on insurance contracts in January 2012.

General Announcements: None.