MINUTES

To: Board Members

From: Insurance Contracts Team
(King, ext. 340)

Subject: Minutes of the May 22, 2012, and May 24, 2012, Joint Board Meetings: Insurance Contracts **Date:** May 31, 2012

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—Acquisition Costs, Separation of Investment Components from the Insurance Contract, Summary of Separation Approaches, The Use of OCI
Basis for Discussion:	FASB Memo Nos. 83, 83B, 83C, 83D, 83E, 83F, 83G, 83H, 83I, 83J, 83K, 83L, 83M IASB Agenda Papers 2, 2B, 2C, 2D, 2E, 2F, 2G, 2H, 2I, 2J, 2K, 2L, 2M, 14B, 14C
Length of Discussion:	May 22 – 7:30 a.m. to 9:15 a.m. (EST) May 24 – 9:30 a.m. to 2:50 p.m. (EST)
Attendance:	
Board members present:	FASB: Seidman, Buck, Golden, Linsmeier, Schroeder, Smith, Siegel IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Engström, Finnegan,

	Gomes, Kalavacherla, McConnell, Ochi, Pacter, Scott, Smith, Zhang
Staff in charge of topic:	FASB: Weiner
	IASB: Pryde
Staff members present:	FASB: Cosper, Proestakes, Irwin, Ampofo, Alexander, Silva, King, Barton
	IASB: Lloyd, Clark, Knubley, Yeoh, Brown

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 FASB and the IASB continued their discussions on insurance contracts by considering the separation of investment components from the insurance contract, the use of other comprehensive income (OCI), and the accounting for acquisition costs. In addition, the IASB considered its previous decisions on risk adjustment and residual margin.

Separation of Investment Components from the Insurance Contract

The Boards tentatively decided that:

1. If the investment component is distinct, an insurer should unbundle the investment component and apply the applicable IFRSs or U.S. GAAP in accounting for the investment component.
2. An investment component is distinct if the investment component and the insurance component are not highly interrelated.
3. Indicators that an investment component is highly interrelated with an insurance component are:
    a. A lack of possibility for one of the components to lapse or mature without the other component also lapsing or maturing,
    b. If the products are not sold in the same market or jurisdiction, or
    c. If the value of the insurance component depends on the value of the investment component or if the value of the investment component depends on the value of the insurance component.

4. An insurer should account for investment components that are not distinct from the insurance contract together with the insurance component under the insurance contracts standard.

   (FASB: Unanimous, IASB: 12 to 2)

The Boards affirmed their previous tentative decisions regarding separation from insurance contracts, as follows:

1. Embedded derivatives: unbundled when the embedded derivative is not closely related (for the IASB) or clearly and closely related (for the FASB) to the insurance component.
2. Noninsurance goods and services: unbundled when the performance obligation to provide the goods or services is distinct, as previously defined by the Boards.
3. Investment components: exclude from the premium presented in the statement of comprehensive income an amount for an investment component as previously defined by the Boards. The Boards previously tentatively decided this should be the amount the insurer is obligated to pay to policyholders or to their beneficiaries regardless of whether an insured event occurs. The FASB will vote in a future meeting on how to determine the amount excluded from the premium presented in the statement of comprehensive income.

   (FASB: Unanimous, IASB: Unanimous)

The Boards tentatively decided that insurers should be prohibited from applying revenue recognition or financial instrument standards to components of an insurance contract when unbundling is not required.

(FASB: Unanimous, IASB: 13 to 1)

Use of Other Comprehensive Income (OCI)

The Boards tentatively decided that an insurer should:

1. Present in OCI changes in the insurance liability arising from changes in the discount rate.

   (FASB: Unanimous, IASB: 10 to 4)

   The Boards tentatively decided to require the presentation of those changes in OCI in all cases, subject to a future discussion on the treatment of participating insurance contracts (see below).

(FASB: 5 to 2, IASB: 8 to 6)

2. Not present in OCI changes in the insurance liability arising from changes in interest-sensitive cash flow assumptions.

   (FASB: 5 to 2, IASB: 13 members in favor, 1 member abstained)

3. Present in profit or loss interest expense using the discount rate locked in at inception of the insurance contract.

   (FASB: Unanimous, IASB: 9 to 5)

The Boards also tentatively decided:

1. That the discount rate locked in at inception of the insurance contract should be applied to changes in expected cash flows.

   (FASB: Unanimous, IASB: 9 to 5)

2. Not to include a loss recognition test in their proposed requirements.

   (FASB: Unanimous, IASB: 9 to 5)

The Boards will consider at a future meeting how the above decisions will apply to participating insurance contracts including the interaction with previous tentative decisions for participating insurance contracts.

Acquisition Costs in the Building-Block Approach

The FASB tentatively decided against an approach that would require an insurer to expense the acquisition costs and recognize income equal to, and offsetting, those costs when the acquisition costs are incurred.

(FASB: 6 to 1)

At a future meeting, the FASB will consider the following two approaches:

1. An approach that recognizes the right to recover acquisition costs as an asset.
2. An approach that requires an insurer to recognize a reduction in the margin when the acquisition costs are incurred, with no effect in the statement of comprehensive income. The acquisition costs would be shown net against the single margin and allocated to profit or loss in the same way as the single margin.

The FASB will consider acquisition costs in the premium allocation approach at a future meeting.

The IASB tentatively affirmed that an insurer should include acquisition costs in the cash flows used to determine the margin (and hence the insurance contract liability), rather than account for them as a separate deferred acquisition cost asset.

(IASB: 10 to 4)

Risk Adjustment and Residual Margin

The IASB tentatively decided to affirm its previous decisions on the risk adjustment and residual margin, namely that:

1. The measurement of an insurance contract should include an updated, explicit risk adjustment.

   (IASB: 11 to 3)

2. Changes in estimates of future cash flows should be offset in the residual margin.

   (IASB: 10 to 4)

The IASB also decided it would not explore whether other changes in estimates should be offset in the residual margin.

(IASB: 7 to 7)

Next Steps

The Boards will continue their discussion on insurance contracts in the week commencing June 11, 2012.

General Announcements: None.