

MINUTES



To: Board Members

From: Insurance Contracts Team
(Jacob, ext. 445)

Subject: Minutes of the January 30, 2013,
Joint Board Meeting: Insurance Contracts **Date:** February 1, 2013

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—Allocation of insurance contract revenue—change in pattern of expected claims, considering the transition proposals in the light of subsequent decisions on insurance contracts revenue

Basis for Discussion: FASB Memo Nos. 96A and 96B

Length of Discussion: 12:15 p.m. to 1:15 p.m.

Attendance:

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

IASB: Hoogervorst, Mackintosh,
Cooper, Danjou, Edelmann, Engström,
Finnegan, Gomes, Kalavacherla,
McConnell, Ochi, Pacter, Scott, Suh,
Zhang

Staff in charge of topic: FASB: Weiner

IASB: Pryde

Staff members present: FASB: Cospers, Proestakes, Irwin,
Alexander, Jacob, Laos

IASB: Lloyd, Clark, Knubley, Yeoh,
Ruta, Pieterse, Silva

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 joint discussions of the proposed insurance contracts standard. The Boards discussed (1) the presentation of insurance contract revenue when there are changes in the pattern of expected claims and (2) the transition proposals for insurance contract revenue.

Allocation of Insurance Contract Revenue upon a Change in the Pattern of Coverage or Other Services

The Boards considered the allocation of insurance contract revenue for portfolios of insurance contracts accounted for by applying the building-block approach. The Boards tentatively decided that if there is a change in the expected pattern of coverage (or any other services) to be provided in the future, for a portfolio of insurance contracts, the remaining insurance contracts revenue should be reallocated prospectively to reflect the latest estimates of that pattern. An indicator of a change in the expected pattern of coverage could be a change in the expected pattern of future claims.

(FASB: Unanimous, IASB: 13 to 2)

Transition for Insurance Contract Revenue

The FASB tentatively decided that for contracts accounted for under the building-block approach that are in force at transition, the amount of the revenue to be recognized after transition should be determined as follows:

1. For contracts for which the margin is determined through retrospective application, the insurance contract revenue remaining to be earned as of the date of transition should be determined retrospectively by using the assumptions applied in the retrospective determination of the margin.
2. For contracts for which retrospective application is not practicable to determine the margin because it would require significant estimates that are not based solely on objective information, the insurance contract

revenue remaining to be earned should be presumed to equal the amount of the liability for remaining coverage (excluding any investment components) recorded at the date of transition (plus accretion of interest).

- a. The liability for remaining coverage for these contracts at the date of transition should be presumed not to consist of any losses on initial recognition or of changes in estimate of future cash flows recognized in profit or loss after the inception of the contracts.
- b. The remaining insurance contract revenue to be earned should be limited to the total expected cumulative consideration for in-force policies in the portfolio (plus interest accretion and less investment component receipts).
- c. The remaining insurance contract revenue should be allocated to periods subsequent to the date of transition in proportion to the value of coverage (and any other services) that the insurer has provided for the period (that is, applying the pattern of expected claims and expenses and release of margin).

(FASB: Unanimous)

The IASB tentatively decided that on transition an insurer should estimate the amount of revenue to be recognized in future periods by estimating the residual margin or initial loss included in the liability for remaining coverage. In estimating that residual margin or loss, an insurer should assume that the risk adjustment at inception is assumed to equal the risk adjustment on transition.

(IASB: 13 to 1)

In addition, the IASB decided that when retrospective application is not practicable, an insurer should estimate the residual margin by maximizing the use of objective data. In other words, an insurer should not calibrate the residual margin to the insurance liability as it was measured using previous GAAP.

(IASB: Unanimous)

Next steps

The FASB will continue its discussions on the project at its meeting on February 6, 2013. The IASB will continue its discussions on the project at its meeting on January 31, 2013, when it will consider sweep issues.

General Announcements: None.