

MINUTES



Financial Accounting
Standards Board

To: Board Members
From: Insurance Contracts Team
(Laos, ext. 442)
Subject: Minutes of the February 20, 2013,
FASB Board Meeting: Insurance Contracts
Date: February 21, 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—Segregated
Assets Related to Direct Performance
Linked Insurance Contracts, Accretion
of Interest on the Margin

Basis for Discussion: Memo Nos. 99A and 99B

Length of Discussion: 2:00 pm to 4:00 pm

Attendance:

Board members present: Seidman, Buck, Golden, Linsmeir,
Schroeder, Siegel, Smith

Staff in charge of topic: Weiner

Other staff at Board table: Cospers, Stoklosa, Irwin, Alexander,
Brickman, Jacob, Laos

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 continued its discussions of the proposed insurance contracts standard. The Board discussed (1) segregated assets related to direct performance linked insurance contracts and (2) accretion of interest on the margin.

Segregated Assets Related to Direct Performance Linked Insurance Contracts

The Board decided the following:

1. The liability for “direct performance linked insurance contracts” and the assets directly linked to those liabilities should be reported in the insurer’s financial statements.

FASB: (7-0)

2. The guidance described in 3 through 9 below applies if the segregated fund arrangement meets both of the following conditions:
 - a. The insurer must, as a result of contractual, statutory, or regulatory requirements, invest the contract holder’s funds directed by the contract holder in designated investment alternatives or in accordance with specific investment objectives or policies. Investment of a portion of the contract holder’s funds would not meet this criterion.
 - b. All investment performance, net of contract fees and assessments, must as a result of contractual, statutory, or regulatory requirements be passed through to the individual contract holder.
 - i. Contracts may specify conditions under which there may be a minimum guarantee, but not a ceiling, because a ceiling would prohibit all investment performance from being passed through to the contract holder.
 - ii. Contractual features that give the insurer discretion on the amount or timing of the pass through would not meet this criterion. For example, if performance is passed through to individual contract holders on the basis of realized gains on the investment portfolio or when the insurer declares a

“dividend,” the investment performance is deemed to not be passed through to the individual contract holder.

FASB: (7-0)

3. The guidance in Subtopic 944-80, Financial Services—Insurance—Separate Accounts, regarding an insurer’s consideration of qualifying segregated fund arrangements when performing analyses for consolidation under Subtopic 810-10, Consolidation—Overall, should be retained (retention of Accounting Standards Update 2010-15).

FASB: (7-0)

4. An insurer should record the contract holder funds and its proportionate interest in the qualifying segregated fund arrangements at fair value through net income.

FASB: (7-0)

5. The assets in the qualifying segregated fund arrangements should be presented separately in the statement of financial position or disclosed in the notes.

FASB: (4-2, 1 abstained)

6. An insurer should disclose the amount of the assets in the qualifying segregated fund arrangements that:
 - a. Are legally insulated from the general account and those that are not.
 - b. Represent the insurer’s proportionate interest.

FASB: (7-0)

7. The liabilities directly linked to segregated fund arrangements should be disclosed in the notes.

FASB: (7-0)

8. Revenues and expenses need not be presented separately from revenues and expenses for other insurance contracts in the statement of comprehensive income.

FASB: (7-0)

9. Investment income generated from the assets in the qualifying segregated fund arrangements and the interest credited to contract holders as a pass through of that investment income should be presented separately as part of investment income and interest expense in the statement of comprehensive income or disclosed in the notes.

FASB: (7-0)

Accretion of Interest on the Margin

The Board decided the following:

- a. An insurer should accrete interest on the margin to reflect the time value of money.
- b. The interest accretion rates should be based on the same yield curves used for purposes of discounting the cash flows determined at inception of the portfolio of insurance contracts and not subsequently adjusted.

FASB: (7-0)

Next Steps

The Board will continue discussions at its education session on February 25, 2013, and Board meeting on February 27, 2013.

General Announcements: None.