MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Insurance Contracts Team (Jourdan, ext. 273)
Subject:	Minutes of the February 10, 2010, Joint Board Meeting (video): Insurance Contracts
Date:	March 2, 2010
cc:	FASB: Bielstein, Golden, Stoklosa, Chookaszian, Posta, Guasp, Sutay, Klimek, Gabriele, McGarity, Proestakes, Cropsey, Trench, Lott, Hood, Brickman, Galloway (GASB), FASB Intranet; IASB: Leisenring, Clark, van der Veen, Hack, 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 a final Accounting Standards Update.

Topic:	Insurance Contracts—Reinsurance and Policyholder Accounting
Basis for Discussion:	Board Memorandums Nos. 38A and 38B
Length of Discussion:	7:00 a.m. to 8:25 a.m. (Eastern)
Attendance:	
Board members present:	FASB: Herz, Seidman, Smith, Siegel, and Linsmeier (via Telephone) IASB: Tweedie, Cooper, Garnett, Gelard Leisenring, Kalavacherla, McConnell, Engström, Smith, Finnegan, Wei-Guo, Danjou, Gomes, McGregor
Board members participating via videoconference:	Yamada
Board member absent:	none
Staff in charge of topic:	van der Veen
Other staff at Board table:	IASB: Clark, Hack
Staff participating by video:	Cropsey and Golden Trench and Proestakes

Summary of Decisions Reached:

Reinsurance

The Boards discussed the accounting for reinsurance contracts by both the reinsurer (principally its obligations) and the cedant (its reinsurance assets—recoverables on business written).

The Boards tentatively decided that:

1. A reinsurer should use the same recognition and measurement approach for the reinsurance contracts it issues as all other insurers use for the insurance contracts they have issued.
2. A cedant should recognize and measure its reinsurance asset (reinsurance recoverable) using the same recognition and measurement approach it uses for the reinsured portion of the underlying insurance contracts it has issued (subject to further staff research described below). This measurement approach includes:
    a. The expected present value of the cash flows required to fulfill the reinsured portion of the insurer's obligations.
    b. The addition of the risk margin (but not the residual margin) included in the measurement of the reinsured portion of the contract liability.
    c. The addition of the residual margin implied by the pricing of the reinsurance contract.
    d. The impact on the reinsurance asset of possible impairment and coverage disputes, measured using the building-block approach, in other words an expected value basis, rather than an incurred loss basis.

    The staff will research the following issues:

    a. Can the residual margin implied by the pricing of the reinsurance contract be negative?
    b. How do the building blocks of the proposed measurement approach interact with the impairment test of the reinsurance asset?
    c. The staff will develop an example to test how the proposed measurement approach applies to the cedant and the reinsurer.

3. A cedant should not offset reinsurance balances against related direct reinsurance balances (balance sheet and income statement) unless legal requirements for offsetting are met.
4. A cedant should not derecognize the related direct insurance liabilities upon entering into a reinsurance contract unless the obligation specified in the insurance contract is (legally) discharged, cancelled, or expired.
5. The cedant and the reinsurer should credit and charge, respectively, to the income statement ceding commissions for proportional reinsurance contracts in a manner

consistent with the treatment of acquisition costs. The staff will investigate whether this treatment requires amendment if applied to nonproportional reinsurance contracts, and will consider how to distinguish ceding commissions from other contractual cash flows.

Policyholder accounting

The Boards discussed an analysis of symmetry between policyholder accounting and the accounting by the issuer of the insurance contract. The Boards tentatively decided not to consider further before issuing an exposure draft on accounting by insurers for insurance contracts:

1. Any differences in measurement that might arise if the Boards' proposals for insurers were applied to policyholders, except in relation to acquisition costs and participating features.
2. Nonreinsurance policyholder accounting.

Next steps

The Boards will continue their discussion of this project at the joint Board meeting on February 16–18.