MINUTES

To:	Board Members
From:	Insurance Contracts Team (Jourdan, ext. 273)
Subject:	Minutes of the January 19, 2010, Joint Board Meeting: Insurance Contracts
Date:	January 25, 2009
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—Measurement objective and risk adjustment, residual margins, and policyholder behaviour
Basis for Discussion:	Board Memorandums Nos. 35A, 35B, and 35C
Length of Discussion:	3:00 a.m. to 6:30 a.m. (Eastern)
Attendance:	
Board members present:	FASB: Herz, Seidman, Smith, Siegel, and Linsmeier IASB: Tweedie, Cooper, Garnett, Gelard Leisenring, Yamada, Kalavacherla, McConnell, Engström, Smith, Finnegan, Wei-Guo, Danjou, Gomes
Board members participating via videoconference:	McGregor
Board member absent:	none
Staff in charge of topic:	van der Veen
Other staff at Board table:	IASB: Clark, Hack FASB: Golden
Staff participating by video:	Trench, Cropsey, Jourdan, Proestakes

Summary of Decisions Reached:

The Boards discussed the following topics:

1. Measurement and risk adjustments
2. Day-one losses
3. Treatment of the residual margin
4. Policyholder behavior.

Measurement and risk adjustments

At their joint meeting in December, the Boards decided tentatively that the measurement approach should portray a current assessment of the insurer's obligation, using the following building blocks:

1. The unbiased, probability-weighted average of future cash flows expected to arise as the insurer fulfills the contract
2. The time value of money
3. A risk adjustment for the effects of uncertainty about the amount and timing of future cash flows
4. An amount that eliminates any gain at inception of the contract.

At this meeting, the Boards decided tentatively that:

1. Those building blocks should be used to measure the combination of rights and obligations arising from an insurance contract rather than to measure the rights separately from the obligations. That combination of rights and obligations should be presented on a net basis.
2. The objective for measuring an insurance contract should refer to a value rather than cost. The staff will refine the description of that objective.

The Boards also decided tentatively that:

1. The risk adjustment should be the amount the insurer requires for bearing the uncertainty that arises from having to fulfill the net obligation arising from an insurance contract. The staff will develop guidance on how to determine the risk adjustment.
2. The risk adjustment should be updated (remeasured) each reporting period.

Day-one losses

In the proposed accounting approach, a loss arises at inception if, after applying a risk adjustment, the expected present value of cash outflows exceeds the expected present value of cash inflows. The Boards decided tentatively that an entity should recognize that loss in profit or loss at inception.

Treatment of the residual margin

The proposed accounting approach eliminates any gain at inception by including a residual margin in the measurement of the combination of rights and obligations arising from the insurance contracts. The Boards decided tentatively:

1. To develop specific guidance on how the residual margin should be released to profit or loss over time
2. That the insurer should not adjust the residual margin in subsequent reporting periods for changes in estimates.

Policyholder behavior

The Boards discussed features that enable policyholders to take actions that change the amount, timing, uncertainty, or nature of benefits that they will receive (policyholder options).

The IASB affirmed its view that the policyholder options, as well as options, forwards, and guarantees related to existing coverage, should be included in the measurement of the insurance contract on a look-through basis using the expected value of future cash flows (to the extent those options are within the boundary of the existing contract). As a consequence, no deposit floor would apply. For a future discussion, the staff will develop material to identify the boundary of an existing contract.

The FASB discussed policyholder options. Views diverged and no clear consensus emerged. The FASB will return to the topic of policyholder behavior at a future meeting.

The Boards also discussed how to treat options, forwards, and guarantees that do not relate to the existing insurance contract coverage. The Boards decided tentatively to exclude such features from the measurement of that contract. Rather, those features should be recognized and measured as new insurance contracts or other standalone instruments, according to their nature.

Next steps

The Boards expect to continue their discussion of this project at an additional joint meeting on February 10.