MINUTES

Financial Accounting Standards Board

To:	Board Members
From:	Insurance Contracts Team (King, ext. 340)
Subject:	Minutes of the November 14, 2012, FASB Board Meeting: Insurance Contracts
Date:	November 16, 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— Ceding Commissions, Business Combinations and Portfolio Transfers, Participation Features of Mutual Insurance Companies
Basis for Discussion:	Memo Nos. 92A, 92B, 92C
Length of Discussion:	10:00 a.m. to 12:15 p.m. (EST)

Attendance:

Board members present:	Seidman, Buck, Golden, Linsmeier, Schroeder, Smith, Siegel
Staff in charge of topic:	FASB: Weiner
Staff members present:	FASB: Cosper, Proestakes, Irwin, Alexander, Brickman, King, Barton, Jacob

<u>Type of Document and Timing Based on the Technical Plan</u>:

Please refer to the current technical plan for information about the expected release dates of exposure documents and final standards.

<u>Summary of Decisions Reached</u>:

The FASB continued its discussion on the accounting for insurance contracts, focusing on how an entity would account for ceding commissions, contracts acquired through business combinations and portfolio transfers, and discretionary payments to policyholders of a mutual insurer as a result of a contractual participation feature.

Ceding Commissions

The Board tentatively decided that the cedant should treat ceding commissions that are not contingent on claims or benefits experience that it receives from the reinsurer as a reduction of the premium ceded to the reinsurer.

(FASB: 6 to 1)

Business Combinations and Portfolio Transfers

The Board tentatively decided that:

1. An insurer should, at the acquisition date, measure at fair value the insurance liabilities assumed and insurance assets acquired in a business combination, the components of which should be measured as follows:
    a. Expected net cash flows measured in accordance with the insurer's accounting policies for insurance contracts that it issues using current assumptions. The discount rate determined at the acquisition date should be deemed the locked-in rate at which interest expense is accreted and presented in the statement of comprehensive income.
    b. Single margin measured as the difference between the fair value of the insurance contract liability (that is, the hypothetical premium) and the expected net cash flows determined in (a) above.

    (FASB: 6 to 1)

2. An insurer should measure a portfolio of insurance contracts acquired in a portfolio transfer that does not meet the definition of a business combination in accordance with the insurance contracts standard.

    (FASB: Unanimous)

3. Insurance contracts that are acquired through a combination of entities or businesses under common control should apply the guidance in Topic 805, Business Combinations.

   (FASB: Unanimous)

4. For business combinations prior to the effective date of the insurance contracts standard, applying the transition guidance will require insurers to reallocate the purchase price attributed to the insurance contracts liability to the components in accordance with decisions reached in 1 – 3 as of the acquisition date, using the fair value guidance in effect at that date.

   (FASB: Unanimous)

Discretionary Payments to Policyholders of a Mutual Insurer as a Result of a Contractual Participation Feature

The Board tentatively decided to clarify that on measuring the insurance contracts liability, discretionary payments as a result of a contractual participation feature should be based on the insurers' expectation of payments to policyholders (considering the entity is a going concern), thus resulting in equity (deficits) for mutual insurers.

(FASB: Unanimous)

Next Steps

The Board will continue its discussion on the insurance contracts project at a joint meeting with the IASB on November 20, 2012, on the determination of the discount rate and the rate at which interest is accreted for contracts whose cash flows are affected by expected asset returns but for which "mirroring" does not apply. Also on November 20, 2012, the FASB will discuss when an entity should apply the insurance contracts standard for guarantee contracts that meet the definition of insurance.

General Announcements: None.