MINUTES

Financial Accounting Standards Board

To:	Board Members		
From:	Goodman (ext. 295)		
Subject:	Minutes of the June 8, 2005 Board Meeting: Financial Guarantee Insurance	**Date:**	June 15, 2005
cc:	FASB: L. Smith, Bielstein, Petrone, Project Team, Golden, Laurenzano, Polley, Gabriele, Getz, Mahoney, Sutay, Intranet; IASB: Upton, Leisenring, Clark; GASB: Attmore, Bean		

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Topic:	Financial Guarantee Insurance
Basis for Discussion:	Board Memorandums dated March 28 and May 26, 2005
Length of Discussion:	11:00 a.m. to 11:15 a.m.
Attendance:	
Board members present:	Herz, Batavick, Crooch, Schipper, Seidman, and Young
Board members absent:	Trott
Staff in charge of topic:	Thuener
Other staff at Board table:	L. Smith, Golden, Cropsey, and Belcher
Outside participants:	Leisenring

Summary of Decisions Reached:

The Board decided to:

1. Add a project to its agenda to consider the accounting by insurers for financial guarantee insurance.

2. Limit the scope of the project to contracts issued by insurance companies that indemnify the holder against losses from payment default on a financial obligation that are not considered derivative contracts due to meeting the exception in paragraph 10(d) of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Thus, the project would be confined to contracts written by insurance companies currently within the scope of FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*. However, consideration of the accounting model will not be limited to the short- and long-duration models described in Statement 60. The Board will consider several aspects of the insurance accounting model, including claims liability recognition, premium recognition, and the related amortization of deferred policy acquisition costs.

Objective of Meeting:

The objective of the meeting was for the Board to decide (a) whether to add a project to consider the accounting by insurers for financial guarantee insurance and (b) the scope of that project.

Matters Discussed and Decisions Reached:

1. Ms. Thuener opened the meeting by stating that practice is diverse with respect to the timing of the recognition of claim liabilities for financial guarantee contracts issued by insurance companies. She noted that such diversity has resulted, in part, from the variety of accounting models that exist for products similar to financial guarantee insurance to which insurers analogize. In addition, Ms. Thuener stated that the SEC required many of the largest publicly traded financial guarantee insurers to provide enhanced disclosures in their 2004 10-K filings regarding the timing of the recognition of claim liabilities for financial guarantee contracts. Ms. Thuener asked the Board to decide whether to add a project to consider the accounting by insurers for financial guarantee insurance.

2. The Board unanimously agreed to add the project to its agenda because its members believe that the project will address the diversity identified in practice.

3. Next, Ms. Thuener asked the Board to consider the scope of the project and presented four alternatives. She noted that the staff recommends a narrowly scoped project limited to non-derivative contracts issued by insurance companies. Ms. Thuener noted that while broadening the scope of the project beyond those contracts could result in similar accounting for economically similar contracts, it would require a broad-based project that would encompass the consideration of subsequent (Day 2) accounting for contracts that are within the scope of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, and a potential reconsideration of FASB Statement No. 5, *Accounting for Contingencies*. Therefore, at this time the staff recommended that the Board take on the project narrowly and address contracts issued by insurance companies that indemnify a holder against losses on payment default on financial obligations.

4. The Board decided on a narrow-scope project (Alternative A). Five Board members [Mr. Batavick, Mr. Crooch, Ms. Schipper, Ms. Seidman, and Mr. Trott] expressed a preference for a project of this scope.

5. Mr. Batavick stated that the Board should consider a narrow-scope project because (a) financial, mortgage, and credit guarantee contracts have similar attributes and (b) a narrow-scope project would address the diversity in practice for accounting for such guarantees.

6. Ms. Seidman stated that there is currently a "silo" accounting model for insurance, and that the Board was asked to address a narrow practice issue based on this model. Therefore, an incremental change would be preferable in this instance. Ms. Seidman further noted that while conceptually it would be desirable to get a consistent answer across the board for economically similar transactions, her support for this project hinges upon the ability of the Board to deal with the issue expeditiously. In addition, other projects on the Board's agenda could address the accounting for guarantee instruments comprehensively.

7. Mr. Crooch stated that a narrow scope would be appropriate to address diversity in practice and that this was not the time to add a broad project.

8. Ms. Schipper stated that a narrow-scope project, as a practical matter, would address the concern of the constituent who requested that the FASB consider the accounting related to the recognition of claim liabilities for financial guarantee contracts issued by insurance companies. However, Ms. Schipper noted that conceptually, a broad scope project would provide an improved framework for the overall accounting for guarantees. She noted that (a) there is currently a project being addressed by the Board regarding minimum revenue guarantees, (b) there is a lack of convergence with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which provides for the subsequent measurement of these items (though U.S. GAAP does not), and (c) there are instances where the accounting differs based upon the label affixed to the entity that writes the contract. Ms. Schipper further suggested that in addition to addressing insurance accounting, the Board should address Interpretation 45 vis-a-vis IAS 37 and Statement 5 because inconsistencies related to the accounting for guarantees will continue. In accepting a narrow-scope project, she indicated that convergence and improvement opportunities should continue to be contemplated with regard to the accounting for provisions and contingencies, an area of accounting not idiosyncratic to insurance.

9. Mr. Herz stated that he would prefer a broad scope project addressing the accounting for *all* non-derivative contracts that indemnify a holder against losses on payment default on financial obligations (Alternative B) but would not object to a narrow-scope project. A broad scope project would treat similar guarantee instruments alike, without regard to the issuing entity. He noted, however, that a narrow-scope project would provide consistent accounting for such instruments within a given group of entities.

10. Mr. Young stated that he would not object to the preference of the majority of the Board.

11. Mr. Belcher closed the meeting by stating that the project will address both revenue and loss recognition.

<u>Follow-up Items</u>:

None.

<u>General Announcements</u>:

None.