

MINUTES



To: Board Members
From: Insurance Contracts Team
(Lindemuth, ext. 442)
Subject: Minutes of the March 21, 2011,
Joint Board Meeting: Insurance
Contracts **Date:** March 30, 2011
cc: FASB: Bielstein, Golden, Stoklosa, Chookaszian, Posta, Guasp, Sutay,
Klimek, Gabriele, McGarity, Proestakes, Lott, Hood, Brickman, Weiner,
Kuhaneck, Hildebrand, Lindemuth, Montgomery, Galloway (GASB), FASB
Intranet; IASB: Clark, Hack, Pryde, Zeitler, d'Eri, Vermaak, Yeoh, 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—Risk Adjustment,
Discount Rate, Unbundling

Basis for Discussion: FASB Memo Nos. 61, 61D, 61E, 61F,
61G, / IASB Agenda Papers 12, 12D,
12E, 12F, 12G

Length of Discussion: 1:15pm to 3:15pm (EST)

Attendance:

Board members present: FASB: Buck, Golden, Linsmeier,
Seidman, Shroeder, Smith, and Siegel
IASB: Tweedie, Cooper, Danjou,
Engström, Finnegan, Gomes,
Kalavacherla, König, McGregor,
Pacter, Scott, Smith, Wei-Guo, and
Yamada

Board members participating by video:	IASB: McConnell
Staff in charge of topic:	FASB: Weiner IASB: Yeoh and Pryde
Other staff participating by video:	IASB: Hack, Zeitler, d'Eri, Ruta, and Vermaak
Staff members present:	IASB: Peter Clark FASB: Cospers, Proestakes, Hildebrand, Kuhaneck, Lindemuth, and Montgomery

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 IASB and the FASB continued their discussions on insurance contracts by considering the following topics:

1. Unbundling
2. Objective of the risk adjustment
3. Discount rate for ultra-long duration contracts.

Unbundling

The Boards discussed the objectives for separating insurance contracts into noninsurance components and insurance components. This is referred to as unbundling. The Boards were not asked to make any decisions about the objectives of unbundling.

The Boards affirmed the proposal in the IASB's Exposure Draft, *Insurance Contracts*, and the FASB's Discussion Paper, *Preliminary Views on Insurance Contracts*, that an insurer should account separately for embedded derivatives that are contained in a host insurance contract that is not closely related to the embedded derivative.

The Boards will discuss other aspects of unbundling at future meetings.

(Vote—IASB: unanimous; FASB: unanimous)

Objective of the Risk Adjustment

The Boards tentatively decided:

1. To remove references in the objective of the risk adjustment proposed in paragraph 35 of the Exposure Draft to “the amount the insurer would rationally pay to be relieved of the risk” and to a “maximum amount.” As a result, the objective of the risk adjustment would be “the compensation the insurer requires to bear the risk that the ultimate cash flows could exceed those expected.”
2. To provide application guidance that this amount would reflect both favorable changes and unfavorable changes in the amount and timing of fulfillment cash flows.

The staff will consider how to capture in the application guidance the notion that the risk adjustment reflects the point at which the insurer is indifferent between holding the insurance liability and a similar liability that is not subject to uncertainty.

(Vote—IASB: unanimous; FASB: unanimous)

Discount Rate for Ultra-Long Duration Contracts

The Boards discussed the effects of changes in discount rate where the yield curve is extended beyond observable market prices (that is, *ultra-long duration* contracts). The Boards indicated that they did not want the staff to develop a separate approach for changes in the discount rate for only this particular type of contract.

General Announcements: None.