

MINUTES



To: Board Members
From: Insurance Contracts Team
(Montgomery, ext. 445)
Subject: Minutes of the March 15, 2011,
Joint Board Meeting: Insurance
Contracts **Date:** March 18, 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, Initial Recognition, and Definition

Basis for Discussion: FASB Memo Nos. 60B, 60C, 60E, 60H, 60F, 60I, 60D / IASB Agenda Papers 3B, 3C, 3E, 3H, 3F, 3I, 3D

Length of Discussion: 9:45am to 1:45pm (EST)

Attendance:

Board members present: FASB: Buck, Golden, Linsmeier, Seidman, Shroeder, Smith, and Siegel

Board members participating
By video: IASB: Tweedie, Cooper, Danjou, Engström, Finnegan, Gomes, Kalavacherla, König, McConnell, McGregor, Pacter, Scott, Smith, Wei-Guo, and Yamada

Board members absent:	None
Staff in charge of topic:	FASB: Weiner IASB: Yeoh and Pryde
Other staff participating by video:	IASB: Clark, Hack, Zeitler, d'Eri, and Vermaak
Staff members present:	FASB: Cospers, Proestakes, Hildebrand, Kuhaneck, 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. Risk adjustment
2. An alternative approach to deriving a discount rate
3. The discount rate for participating contracts
4. The timing of initial recognition
5. The definition of an insurance contract.

Risk Adjustment

The Boards invited a guest speaker to provide an education session on how a risk margin is calculated using a cost of capital approach in practice and the linkage to determining the best estimate liabilities.

The Boards were not asked to make any decisions on this topic.

An Alternative Approach to Deriving a Discount Rate

The Boards invited guest speakers to present an approach that derives a yield curve for a discount rate for all cash flows expected at a given duration by:

1. Identifying liability cash flows that are matched in duration with the cash flows from the insurer's existing asset portfolio
2. Considering the reinvestment needs for cash flows that are not matched in duration

3. Considering the effect of options and guarantees embedded in the liabilities.

The Boards were not asked to make any decisions on this topic.

Discount Rate for Participating Contracts

The Boards discussed the discount rate for insurance contracts that contain participating features. The Boards tentatively decided to:

1. Clarify that the objective of the discount rate used to measure participating insurance contracts should be consistent with the objective of the discount rate used to measure nonparticipating insurance contracts
2. Provide guidance that, to the extent that the amount, timing, or uncertainty of the cash flows arising from insurance contracts depends wholly or partly on the performance of specific assets, the insurer should adjust those cash flows using a discount rate that reflects that dependency.

Recognition

The Boards tentatively decided that insurance contract assets and liabilities should initially be recognized when the coverage period begins and that an onerous contract liability should be recognized in the pre-coverage period if management becomes aware of onerous contracts during that period.

Definition of an Insurance Contract

The IASB's Exposure Draft, *Insurance Contracts*, and the FASB's Discussion Paper, *Preliminary Views on Insurance Contracts*, proposed to define an *insurance contract* as "a contract under which one party accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder." The Boards tentatively decided to affirm that proposal. They also tentatively decided that:

1. An insurer should consider the time value of money in assessing whether the additional benefits payable in any scenario are significant.
2. A contract does not transfer significant insurance risk if there is no scenario that has commercial substance in which the insurer can suffer a loss, with *loss* defined as an excess of the present value of the cash outflows over the present value of the premiums.

General Announcements: None.