

## MINUTES



**To:** Board Members  
**From:** Insurance Contracts Team (King, x340)  
**Subject:** Minutes of the March 21, 2012, Joint Board Meeting: Insurance Contracts  
**Date:** March 27, 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—Unit of Account, Separation of Investment Components from Insurance Contracts

Basis for Discussion: FASB Memo Nos. 81A, 81F, 81G, 81H  
IASB Agenda Papers 2A, 2F, 2G, 2H

Length of Discussion: 9:30 a.m. to 1:00 p.m. (EST)

Attendance:

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

IASB: Hoogervorst, Mackintosh, Cooper, Danjou, Engström, Finnegan, Gomes, Kalavacherla, McConnell, Ochi, Pacter, Scott, Smith, Zhang

Staff in charge of topic: FASB: Weiner

IASB: Pryde

Staff members present:

FASB: Cosper, Proestakes, Ampofo, Irwin, Alexander, Brickman, Silva, King, Barton

IASB: Lloyd, Clark, Ruta, Vermaak, Knubley, Obst

**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 unit of account and separation of investment components from the insurance contract.

*Unit of Account*

The IASB tentatively decided that:

1. A portfolio of insurance contracts should be defined as contracts that are:
  - a. Subject to similar risks and priced similarly relative to the risk taken on; and
  - b. Managed together as a single pool.
2. The unit of account used to determine the residual margin and perform the onerous test should be the portfolio.
3. The unit of account used to release the residual margin should not be prescribed. However, the release of the residual margin should be performed in a manner consistent with the objective of releasing the residual margin over the coverage period to the period(s) in which the service is provided.

(IASB: 9 to 5)

The FASB tentatively decided that:

1. A portfolio of insurance contracts should be defined as contracts that are:
  - a. Subject to similar risks and priced similarly relative to the risk taken on; and
  - b. Have similar duration and similar expected patterns of release of the single margin.
2. The unit of account used to determine and release the single margin and perform the onerous contract test should be the portfolio.

(FASB: Unanimous)

*Separation of Investment Components from the Insurance Contract*

The IASB and the FASB tentatively decided that:

1. An investment component in an insurance contract is an amount that the insurer is obligated to pay the policyholder or a beneficiary regardless of whether an insured event occurs.
2. In the statement of financial position, insurers should not be required to present investment components separately from the insurance contract. However insurers should disclose both:
  - a. The portion of the insurance contract liability that represents the aggregated portions of premiums received (and claims/benefits paid) that were excluded from the statement of comprehensive income; and
  - b. The amounts payable on demand.

(FASB: 4 to 3, IASB: 11 to 3)

In addition, the IASB tentatively decided that insurers should exclude from the aggregate premium presented in the statement of comprehensive income the present value of the amounts that the insurer is obligated to pay to policyholders or their beneficiaries regardless of whether an insured event occurs, determined consistently with measurement of the overall insurance contract liability. The FASB did not vote on this issue and requested that the staff provide further information about possible interpretations of the wording.

(IASB: 12 to 2)

Both Boards directed the staff to consider whether any investment components (as defined) are sufficiently distinct from the insurance component that they should be recognized separately and measured applying the financial instrument standard, rather than the insurance contracts standard.

*Next Steps*

Both Boards will continue their discussion on insurance contracts in the week commencing April 16, 2012.

**General Announcements:** None.