

MINUTES



To: Board Members

From: Insurance Contracts Team
(Jacob, ext. 445)

Subject: Minutes of the October 17, 2012,
Joint Board Meeting: Insurance Contracts

Date: October 19, 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— Presentation in statement of comprehensive income comparison of methods, non-claims fulfillment costs, and acquisition costs

Basis for Discussion: FASB Memo Nos. 90A, 90B, and 90C

Length of Discussion: 7:30 a.m. to 9:45 a.m. (EST)

Attendance:

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

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

Staff in charge of topic: FASB: Weiner

IASB: Pryde

Staff members present:

FASB: Cosper, Proestakes, Irwin,
Alexander, King, Barton, Jacob

IASB: Lloyd, Clark, Knubley, Yeoh,
Ruta, Pieterse, Silva

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 FASB and the IASB continued their joint discussions of the accounting for insurance contracts, focusing on how an entity would present premiums, claims, non-claims fulfillment costs, and acquisition costs in the statement of comprehensive income.

Presentation in the Statement of Comprehensive Income

Premiums and Claims

The Boards tentatively decided that premiums and claims presented in an insurer's statement of comprehensive income should be measured by applying an earned premium presentation, whereby premiums are allocated to periods in proportion to the value of coverage (and any other services) that the insurer has provided in the period, and claims are presented when incurred.

(FASB: 5 to 2, IASB: 13 to 2)

The FASB asked the FASB staff when drafting to consider the inclusion of application guidance about other approaches that may meet the earned premium principle, noting that the description of the approach within the Agenda Papers was too prescriptive.

Non-Claims Fulfillment Costs

The Boards tentatively decided that in an earned premium presentation:

1. The portion of premium allocated to cover non-claims fulfillment costs should be equal to the originally expected non-claims fulfillment costs included in the measure of the building block liability.
2. The premium allocated to cover non-claims fulfillment costs should be included in earned premium in the periods in which the costs are expected to be released from the liability for remaining coverage, that is, when it is

expected that they will be either incurred or added to the liability for incurred claims.

3. The amounts presented as expenses should be the actual costs incurred or added to the liability for incurred claims in the period.

(FASB: Unanimous, IASB: 14 to 1)

The Boards noted that it would not be necessary to specify that insurers be permitted to use simpler procedures that would produce results that are not materially different. In addition, the Boards noted that this decision could be captured in the principle for earned premiums presentation.

Acquisition Costs

The IASB tentatively decided that the cash flows relating to acquisition costs should be recognized in the statement of comprehensive income over the coverage period. (This decision is consistent with a decision previously made by the FASB.)

(IASB: 14 to 0, 1 member abstained)

The FASB tentatively decided that an insurer would present an insurance contract liability on the face of the financial statements in two separate pieces---one piece representing the cash flows expected to fulfill the insurance obligation and a second piece representing the expected contract margin. Acquisition costs would be reported as part of the margin (that is, the margin includes the acquisition costs expected to be paid and is reduced when those acquisition costs are paid).

(FASB: 5 to 2)

The Boards tentatively decided that acquisition costs should be recognized in the statement of comprehensive income in a way that is consistent with the proposed allocation of the residual/single margin, in other words:

1. For the IASB, in a way that is consistent with the pattern of transfer of services provided under the contract.
2. For the FASB, as the insurer satisfies its performance obligations to stand ready to compensate the policyholder if a specified uncertain future event adversely affects the policyholder, which is when the insurer is released from exposure to risk as evidenced by a reduction in the variability of cash outflows. Therefore, the margin recognized should be grossed up for the amount of acquisition costs recognized.

(FASB: Unanimous, IASB: Unanimous)

Next Steps

The Board will continue its discussion on the insurance contracts project at an FASB-only meeting on November 7, 2012. The Boards will continue their joint discussions on the project at their joint meeting in November 2012.

General Announcements: None.