

## MINUTES



Financial Accounting  
Standards Board

**To:** Board Members  
**From:** Insurance Contracts Team  
(Jourdan, ext. 273)  
**Subject:** Minutes of the March 22, 2010,  
Joint Board Meeting: Cross  
Cutting Issues—Insurance  
Contracts  
**Date:** April 5, 2010  
**cc:** FASB: Bielstein, Golden, Stoklosa, Chookaszian, Posta, Guasp, Sutay,  
Klimek, Gabriele, McGarity, Proestakes, Cropsey, Trench, Lott, Hood,  
Brickman, Galloway (GASB), FASB Intranet; IASB: Leisenring, Clark, van  
der Veen, Hack, 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—Definition,  
Scope, and Timing Risk

Basis for Discussion: Board Memorandum Nos. 41A, 41B,  
and 41C

Length of Discussion: 12:35 a.m. to 1:50 p.m. (Eastern)

Attendance:

Board members present: FASB: Herz, Smith, Siegel, Seidman  
and Linsmeier  
IASB: Tweedie, Cooper, Gelard  
Leisenring, McConnell, Engström,  
Smith, Finnegan, Wei-Guo, Danjou,  
Gomes, Kalavacherla, McGregor,  
Yamada, and Garnett

Board member absent: None

Staff in charge of topic: van der Veen

Other staff at Board table: IASB: Clark, Hack, and Golden

Staff participating by video: FASB: Cropsey, Trench, Proestakes,  
Jourdan, and Brickman  
IASB: Upton

### **Type of Document and Timing Based on the Technical Plan:**

The Board met to discuss issues relating to the development of Exposure Drafts addressing leases, revenue recognition, and insurance contracts.

### **Summary of Decisions Reached:**

The Boards discussed the definition of an insurance contract and the scope of the forthcoming Exposure Draft on insurance contracts.

#### *Definition*

The Boards tentatively decided to use the current definition of an insurance contract in IFRS 4, *Insurance Contracts*, and the related guidance in Appendix B of IFRS 4 in the Exposure Draft, specifically:

1. That compensation rather than indemnification be used in the definition of an insurance contract in describing the benefit provided to the policyholder (Vote—IASB: Unanimous; FASB: unanimous)
2. That the guidance in IFRS 4 be used in determining whether insurance risk is significant, subject to matters discussed below. (Vote—IASB: unanimous; FASB: unanimous)

The Boards asked that when the staff bring back the topic of unbundling, they should consider the notion of significant insurance risk in the context of multiple-element contracts.

The Boards discussed the role of timing risk in defining insurance risk and tentatively decided:

1. To change the factors considered in evaluating the significance of insurance risk from absolute amounts to present values
2. To amend the guidance in IFRS 4 to explain that contractual terms that delay timely reimbursement to the policyholder can significantly reduce insurance risk, so that some contracts containing such terms might not

meet the definition of an insurance contract. (Vote—IASB: unanimous; FASB: unanimous)

The Boards also discussed how to assess possible outcomes when determining whether insurance risk exists:

1. The IASB expressed an initial preference for considering the range of possible outcomes. (Vote—IASB: 9 to 6)
2. The FASB expressed an initial preference for considering whether there are outcomes in which the present value of the net cash outflows can exceed the present value of the premiums. (Vote—FASB: 3 to 2)

The Boards will reconsider these initial preferences at a future meeting.

### *Scope*

The Boards tentatively decided that the scope of a standard on insurance contracts will exclude:

1. Warranties issued directly by a manufacturer, dealer, or retailer (Vote—IASB: unanimous; FASB: unanimous)
2. Residual value guarantees embedded in a lease (Vote—IASB: unanimous; FASB: unanimous)
3. Residual value guarantees provided by a manufacturer, dealer, or retailer (Vote—IASB: 14-1; FASB: unanimous)
4. Employers' assets and liabilities under employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans (Vote—IASB: unanimous; FASB: unanimous)
5. Contingent consideration payable or receivable in a business combination. (Vote—IASB: unanimous; FASB: unanimous)

The Boards expressed an initial preference that the scope of the standard should exclude fixed-fee service contracts, but noted that it would be undesirable to exclude contracts merely because they pay benefits in kind rather than in cash. (Vote—IASB: 10-5; FASB: unanimous) The Boards will consider this initial preference at a future meeting at which they will discuss whether to include health contracts within the scope of the standard.

The Boards will also discuss at a future meeting whether financial guarantee contracts should be within the scope of the standard.

### *Next steps*

The Boards will continue their discussion of this project at the joint Board meeting on March 24.

**General Announcements:** None.