	IASB/FASB Meeting **January 5, 2010**	IASB agenda reference FASB memo reference	**Insurance-** **Cover note**

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Project	**Insurance Contracts**
Topic	**Extra IASB/FASB meeting- Cover note**

Objective of this extra meeting

1. At the extra joint Board meeting on 5 January 2010, we will ask the Boards to discuss the papers which were prepared for the December 2009 joint Board meeting but were not discussed then, using the following sequence:

   (a) An insurance contract may contain insurance, deposit (or financial) and service components. Agenda paper 7D (FASB Memorandum 32D) discusses whether to account for those components of a contract as if they were separate contracts (unbundling).

   (b) Agenda paper 7E (FASB Memorandum 32E) discusses the structure of the statement of comprehensive income and includes examples that illustrates the presentation models discussed in that paper.

   (c) Agenda paper 7C (FASB Memorandum 32C) discusses derivatives embedded within insurance contracts.

2. We will not reissue those papers, we therefore ask you to **bring the December papers 7C-7E (FASB Memoranda 32C-32E) to the meeting**.

3. We will **not** use December papers 7A (Measurement model) and 7B (margins) (FASB Memoranda 7A-7B) during the extra meeting.

4. At this meeting, staff does **not** intend to discuss the following subjects, which we plan to ask the Boards to discuss at the regular January meeting (January 18-20):

   (a) follow-up issues arising from the discussion in December on the measurement model and margins (agenda papers 7A and 7B; FASB Memoranda 32A and 32B):

      (i) Whether the measurement objective should reflect the cost of fulfilling the obligation (as proposed by staff in December papers) or a different fulfilment notion and how the proposed risk adjustment relates to the measurement objective.

      (ii) Further guidance on the risk adjustment, including the sources of information an insurer might use to estimate it.

      (iii) The subsequent treatment of the residual margin that eliminates any gain at inception of the contract.

      (iv) Whether the proposed building block approach would apply to both future cash inflows and cash outflows arising from insurance contracts, or only to future cash outflows.

   (b) whether or to what extent the measurement should include future cash flows that depend on policyholder behaviour (ie cancellation and renewal options).

Summary of the December joint meeting

5. At the December joint meeting, the boards discussed:

   (a) the measurement approach for insurance (agenda paper 7A (FASB Memorandum 32A) for the December joint meeting)

   (b) risk margins (as part of agenda paper 7B (FASB Memorandum 32A) for the December joint meeting)

6. During that meeting, the staff provided the boards with a summary of reasons why this project has been pursuing an approach that measures insurance

liabilities by reference to future cash flows, rather than an approach that applies the principles being developed in the project on revenue recognition.

7. The boards then discussed the measurement approach and tentatively decided that it should portray a current assessment of the insurer's obligation, using the following building blocks:

   (a) the unbiased, probability-weighted average of future cash flows expected to arise as the insurer fulfils the obligation;

   (b) the time value of money;

   (c) a risk adjustment for the effects of uncertainty about the amount and timing of future cash flows; and

   (d) an amount that eliminates any gain at inception of the contract.

8. The boards also tentatively decided that:

   (a) the risk adjustment should measure the insurer's view of the uncertainty associated with the future cash flows. The Board discussed various sources of information that an insurer might use to estimate this amount (eg the price the insurer would charge if it were taking on identical obligations with the same remaining risk exposure, or reinsurance prices) and asked the staff to investigate this question further.

   (b) the measurement of an insurance liability should not be updated for changes in the risk of non-performance by the insurer.