	IASB/FASB Meeting **Week commencing 19 September 2011**	IASB Agenda reference	**3A**
Staff Paper		FASB Agenda reference	**73A**

Contact(s)	**Jennifer Weiner**	jweiner@fasb.org	+ 1 203-956-5305

Project	**Insurance Contracts**
Topic	**Report back on FASB single margin discussions**

Purpose of this paper

1. The FASB continued their discussion of the single margin on 7 September 2011. The FASB staff will provide an oral report of that meeting for information.

2. We attach below the extract from the summary of decisions reached for board members information.

> The FASB continued its discussion on insurance contracts by discussing the subsequent accounting for a single margin and the accounting for the liability for incurred claims in the post-claim period for those contracts meeting the eligibility requirements to use the premium allocation approach.
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> ***Accounting for a Single Margin Approach***
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> The FASB tentatively decided that an insurer is released from risk for the purpose of recognizing the single margin in profit:
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> 1. If the variability of the cash flows of a specified uncertain future event is primarily due to timing of that event, an insurer is released from risk on the basis of reduced uncertainty in the timing of the specified event.
> 2. If the variability of the cash flows of a specified uncertain future event is primarily due to the frequency and severity of that event, an insurer is released from risk as variability in the cash flows is reduced as information about expected cash flows becomes more known throughout the life cycle of the contract.
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> The FASB tentatively decided to include the following implementation guidance:
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> 1. An insurer should consider specific facts and circumstances to qualitatively determine if a reduction in the variability of cash flows has occurred to the extent an insurer is released from risk. Those facts and circumstances should include the following:
>   a. The entity's relative experience with the types of contracts
>   b. The entity's past experience in estimating expected cash flows

   c. Inherent difficulties in estimating expected cash flows
   d. The relative homogeneity of the portfolio and within the portfolio
   e. Past experience not being representative of future results.
2. A reduction in the variability of the cash flows such that an insurer is released from risk is a matter of judgment and should be based on facts and circumstances unique to the entity and the nature of the insurance contracts. Different insurers may define a reduction in variability of cash flows in different ways, as further information is obtained about the expected cash flows during the life cycle of an insurance portfolio. The points in the life cycle that should be considered for examination and assessment, among other points in the life cycle, include the following:
   a. When an insurer incurs a claim but that claim has not yet been reported
   b. When a claim has been reported
   c. As additional information becomes known
   d. The point at which the parties to the contract have agreed upon a settlement amount
   e. The point at which the claim has been paid.
3. An insurer should disclose the methodology used to calculate the profit realization of the single margin.

At a future meeting, the Board will discuss the accounting for the single margin when a contract is deemed to be onerous.

Accounting for the Liability for Incurred Claims under the Premium Allocation Approach

The FASB tentatively decided that the liability for incurred claims should be measured as the present value of unbiased expected cash flows (statistical mean) without a single margin. The discount rate should reflect the characteristics of the liability when the effect of discounting is material.

At a future meeting, the Board will consider whether it should include an exception to when discounting is required.