STAFF PAPER

11–20 December 2012

REG IASB Meeting

Project	**Insurance Contracts**
Paper topic	Update on FASB meetings held in November 2012

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Introduction

1. This paper provides an overview on meetings and education-only sessions relating to the Insurance Contracts Project held by the FASB during November 2012.
2. This paper is for information and does not ask for any decisions.

Decision making meetings

3. The following table summarises the topics that the FASB discussed and the decisions reached on these topics.

Topic	**Decision**
Scope – Guarantee Contracts • The FASB discussed the current guidance that is contained in US GAAP for guarantee contracts and whether there are guarantees that meet the definition of insurance contracts, but that should be excluded from the scope of the new *Insurance Contracts* Standard.	The FASB tentatively decided that the proposed *Insurance Contracts* Standard would apply to guarantee contracts within the scope of *FASB Accounting Standards Codification*® Topic 944, Financial Services–Insurance, and would not apply to guarantee contracts within the scope of Topic 815, Derivatives and Hedging. The FASB will further consider other guarantee contracts in a future meeting.

<table>
<tr><th>Topic</th><th>Decision</th></tr>
<tr><td>Reinsurance contracts – Ceding commissions
The FASB discussed how a cedant should treat ceding commissions it receives from the reinsurer.</td><td>The FASB tentatively decided that the cedant should treat ceding commissions that it receives from the reinsurer, but that are not contingent on claims or benefits experience, as a reduction of the premium ceded to the reinsurer.

Staff perspective

The FASB’s decision is consistent with the proposal in the IASB’s Exposure Draft Insurance Contracts (ED). That proposal was generally accepted in the comment letters and the IASB staff intends to carry it forward.</td></tr>
<tr><td>Business Combinations and Portfolio Transfers

The FASB discussed:
the measurement of insurance contracts acquired in a business combination;
the measurement of insurance contracts acquired in a portfolio transfer;
the measurement of insurance contracts acquired in a combination of entities/ businesses under common control; and
transition requirements for a business that is acquired prior to adoption of the Insurance Contract Standard.</td><td>Business Combination

The FASB tentatively decided that an insurer should, at the acquisition date, measure at fair value the insurance liabilities assumed and insurance assets acquired in a business combination. The components should be measured as follows:

(a) Expected net cash flows measured in accordance with the insurer’s accounting policies for insurance contracts that it issues using current assumptions. The discount rate determined at the acquisition date should be deemed by the locked-in rate at which the interest expense is accreted and presented in the statement of comprehensive income.

(b) Single margin measured as the difference between the fair value of the insurance contract liability (that is, the hypothetical premium) and the expected net cash flows determined in (a) above.

Portfolio Transfer

The FASB tentatively decided that an insurer should measure a portfolio of insurance contracts that is acquired in a portfolio transfer, but that does not meet the definition of a business combination, in accordance with the Insurance Contracts Standard.

Common control

The FASB tentatively decided that insurance contracts that are acquired through a combination of entities or</td></tr>
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Topic	Decision
	businesses under common control should apply the guidance in Topic 805, Business Combinations. **Business combination prior to the effective date of the Standard** The FASB tentatively decided that for business combinations prior to the effective date of the *Insurance Contracts* Standard, applying the transition guidance will require insurers to reallocate the purchase price that is attributed to the insurance contracts liability to the components instead, in accordance with the decisions reached (as stated above) as of the acquisition date, using the fair value guidance in effect at that date. *Staff perspective* The IASB and the FASB's decisions on business combinations and portfolio transfers are substantially converged, except for business combinations in which the present value of fulfilment cash flows exceeds the fair value of the portfolio. In that case, the IASB's approach would result in recognition of goodwill, whereas the FASB's approach would result in recognition of an expense. The staff plans to consider the discount rate that is used to determine the interest expense in profit or loss for contracts that were acquired in a business combination at a future meeting.
Mutual Entities • The FASB discussed how to determine the discretionary payments to policyholders that should be included in expected cash flows for measuring the insurance liability. As a result, the FASB then also discussed whether any 'notional' surplus would be considered equity.	The FASB tentatively decided to clarify that on measuring the insurance contracts liability, discretionary payments as a result of a contractual participation feature should be based on the insurers' expectation of payments to policyholders (considering the entity is a going concern), thus resulting in equity (deficits) for mutual insurers.