

STAFF PAPER

20 September – 28 September
2012

REG IASB Meeting

Project	Insurance Contracts
Paper topic	Report on FASB meetings on insurance contracts held in July/ August 2012 (for information)
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

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

Decision making meetings

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

Topic	Decision
Direct response advertising <ul style="list-style-type: none"> • The FASB discussed the treatment of direct response advertising and whether the treatment is more akin to acquisition costs or more to advertising 	The Board tentatively decided that direct-response advertising costs should be expensed as incurred consistent with other forms of advertising costs.
Title insurance	The Board decided that title insurance contacts should be in the scope of the

<ul style="list-style-type: none"> The FASB discussed whether Title insurance (insurance issued relating to title/ ownership of land and property not being valid) 	<p>insurance contracts standard because they meet the tentative definition of an insurance contract. The Board decided that a title insurance carrier would unbundle a title insurance contract into a service component (a title search service component accounted for using the revenue recognition standard) and an insurance component (an indemnification component that covers title defects that would be accounted for using the insurance contracts standard). The Board decided to include a title insurance example in the application guidance to illustrate the requirement to unbundle a title contract into a service component and an insurance component.</p> <p>The Board tentatively decided that direct-response advertising costs should be expensed as incurred consistent with other forms of advertising costs.</p>
<p>Charitable Gift Annuities (CGA)</p> <ul style="list-style-type: none"> The FASB discussed whether a CGA issued by not-for-profit organisation would be in the scope of the Insurance Contract standard and the impact on accounting for these contracts in accordance with the proposed standard 	<p>The Board tentatively decided to exclude from the scope of the proposed insurance contracts standard charitable gift annuities, which possess a donation element and are issued by not-for-profit entities within the scope of <i>FASB Accounting Standards Codification®</i> Topic 958, Not-for-Profit Entities.</p>

<p>Unlocking the single margin</p> <ul style="list-style-type: none"> • The FASB discussed whether, and in what circumstances the single margin recognised should be unlocked. The FASB was asked whether the single margin should be unlocked for: <ul style="list-style-type: none"> ○ changes in estimates of cash flows; ○ portfolio of onerous contracts. 	<p>The Board tentatively decided that:</p> <p>The single margin should not be unlocked for changes in actual or expected cash flows and, instead, such changes should be reported in the income statement immediately.</p> <p>If an insurer determines that a portfolio of contracts is onerous, an additional liability (measured as the present value of future payments for benefits and related settlement and maintenance costs less the present value of future gross premiums less the insurance contract liability) should be recognized with a corresponding offset to eliminate any remaining margin. If the additional liability exceeds the remaining margin, an insurer would recognize an expense for the excess amount.</p> <p>The write-off of the single margin on contracts deemed onerous may not be reversed in future periods.</p>
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Educational sessions

4. At an education session, the FASB discussed a proposed disclosure package, based on the disclosures in the IASB's ED. FASB members were concerned about the volume of disclosures recommended by the staff and requested the staff to perform further outreach with both preparers and users of financial statements on the usefulness and operational implications of the proposed package, in comparison to existing US GAAP disclosures. The FASB intends to complete this outreach before voting on the disclosures to be included in their exposure draft.

5. At an education session, the FASB discussed what the definition of ‘Investment Component’ should be. FASB members discussed the three views presented in the staff papers. Some FASB members expressed support for two of the views presented in the staff papers (the third view did not have support). The FASB requested the staff to work on a more comprehensive example that would illustrate how various elements would interact with each other. The FASB would at a future meeting discuss the paper again and vote on the alternative views.