

This morning the FASB and IASB met jointly and discussed insurance for approximately two hours. Most of the discussion was about two areas where the Boards had previously disagreed: the measurement attribute (and the role of risk margins in the measurement attribute) and the treatment of acquisition costs.

In their July meetings, the FASB was not convinced about the appropriateness of a risk margin or that a risk margin could be measured. Today, the FASB was much more open to the concept. The following example seems to have changed their minds:

Assume the insurance company issues two policies with the same expected cash flows, however one of the policies has a much fatter tail. Since individuals and companies are risk adverse, there will be a higher price charged for the policy with the fatter tail, even though the expected loss on the two policies is the same.

This difference in price is exactly what the IASB is trying to address with their IAS 37 model. The FASB does not like the language of IAS 37 and does not like the term risk margin, but it appears the FASB is currently in agreement conceptually with the IASB on the risk margin as one of the building blocks of insurance liabilities.

Another difference between FASB and IASB regarding their different assumptions of the impact of the revenue recognition standard on insurance was articulated today. The FASB has been working under the assumption that revenue recognition is going to include insurance and the insurance exposure draft is simply a way to measure insurance liabilities under the revenue recognition standard. The IASB has been working under the assumption that insurance would be scoped out of revenue recognition and the insurance exposure draft would cover both revenue recognition for insurance and the development of the liabilities.

There was no discussion about how to reconcile this difference, but it does explain how the two boards have reached different conclusions on the treatment of acquisition costs. The FASB, consistent with the draft revenue recognition standard, said that no revenue would be recognized to offset acquisition costs. The IASB has previously voted to allow revenue to be recognized to offset direct acquisition costs. This was viewed as a proxy for the impact of acquisition costs on premium, but it seemed reasonable in an insurance context. Perhaps in the spirit of compromise, since the FASB is starting to come toward the IASB on measurement, the IASB voted to reverse its earlier decision and will no longer allow revenue to be recognized to offset acquisition costs.

In the time scheduled for insurance in the morning, they did not get to the topic of presentation of the income statement. They decided to reconvene on this topic in the afternoon. During the middle of this discussion the audio stream switched over to marching band music. I'm sure that there is a good punch line in there some place, but I haven't thought of it. There were no decisions made.

I thought that discussion of the timeline would also be part of the afternoon's discussion, but it was not. I do not have any update on how these discussions and the IASB's meeting last week will affect the proposed timeline for the exposure draft.