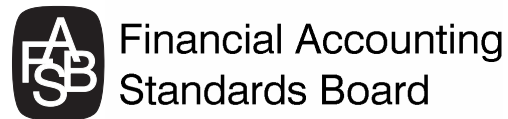


## MINUTES



**To:** Board Members

**From:** Business Combinations: Applying the Acquisition Method Team (Delmonico, Ext. 393)

**Subject:** Minutes of the April 18, 2007 Board Meeting      **Date:** May 1, 2007

**cc:** FASB: Bielstein, Smith, MacDonald, Bossio, Tamulis, Posta, Vessels, Willis, Cafini, Delmonico, Rhine, Glotzer, Lapolla, Chookaszian, Polley, Lott, Gabriele, Sutay, Carney, Allen, FASB Intranet; IASB: Leisenring, Upton, Hickey, Teixeira, Buschhueter, Quiring, Eastman, Kwiatkowska

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.*

Topics: Comparison of fair value measurements in IFRS and U.S. GAAP; classification and designation of assets, liabilities, and equity instruments acquired or assumed in a business combination; disclosures for the final business combination Statement; effective date for the business combination and noncontrolling interests Statements; and accounting for insurance contracts acquired in a business combination follow-up

Basis for Discussion: Board Memorandums No. 52 and No. 56

Length of Discussion: 9:00 to 10:25 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier, Trott, and Young

Board members absent: Seidman (voted in abstentia)

Staff in charge of topic: Tamulis, Nelson, Cropsey, Vessels, and Rhine

Other staff at Board table: Stoklosa, Delmonico, and Tully

IASB participants: Buschhueter, Eastman, Kwiatkowska, Quiring, and  
Teixeira (by phone)

Summary of Decisions Reached:

The Board continued redeliberations of its June 2005 Exposure Drafts, *Business Combinations*, and *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*.

1. The Board affirmed that the measurement attribute in a business combination should be fair value. FASB Statement No. 157, *Fair Value Measurements*, provides the definition of fair value and the related guidance for measuring fair value.
2. The Board discussed the circumstances in which an acquirer should reclassify or redesignate an acquired contract, asset, or liability. The Board affirmed the guidance that currently exists in other standards for classification or designation or, if no guidance exists, affirmed the accounting that is typically occurring in practice:
  - a. The Board decided that classifications and designations based on management's intentions should be reassessed at the acquisition date. For example, an acquirer would classify or designate the following in accordance with its policies and intentions:
    - (1) Trading, available-for-sale or held-to-maturity financial instruments accounted for in accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. (Thus, the Board affirmed the guidance in Statement 115.)
    - (2) Assets held for sale accounted for in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. (Thus, the Board clarified the accounting in Statement 144.)
    - (3) Hedging relationships accounted for in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. (Thus, the Board affirmed the guidance in Statement 133.)
  - b. The Board affirmed the guidance in Statement 133 that requires an evaluation of embedded derivatives for separation from the host contract based on the terms and conditions at the acquisition date.
  - c. The Board affirmed the guidance in FASB Interpretation No. 21, *Accounting for Leases in a Business Combination*, which requires the acquirer to carry over the acquiree's lease classification unless the terms of the lease contract are substantively modified.
  - d. The Board clarified that an acquirer classifies an insurance contract based on the terms and conditions that existed at its inception unless the terms of the

insurance contract are substantively modified as part of the business combination.

3. With respect to disclosures for the final business combinations Statement, the Board generally affirmed the disclosures that were proposed in the Exposure Draft, with minor clarifications. The Board also decided that for the pro forma disclosures, an acquirer should disclose **revenues** and **net income** rather than **results of operations**, as was proposed in the Exposure Draft. This decision converges with the IASB's decisions. (The Exposure Draft defined *results of operations* as revenue, income before extraordinary items, cumulative effect of accounting changes, net income and earnings per share.)
4. The Board decided that the final Statements should be effective for annual periods beginning on or after December 15, 2008. An entity will be prohibited from adopting the Statements before their effective dates.
5. With respect to the guidance provided in paragraph 36(b)(2) of the Exposure Draft for accounting for insurance contracts acquired in a business combination after initial recognition, the Board:
  - a. Decided to provide only high-level supplemental guidance instead of addressing the detail issues previously discussed (other than the editorial concerns). This guidance will be limited to the notion that insurance contracts acquired in a business combination should be considered by the acquiree as new contracts for measurement and accounting purposes. However, reassessment of the classification of those contracts as insurance or deposit contracts (that is, evaluating whether the contracts transfer significant insurance risk) will not be required unless the terms of the contracts were altered substantively in the business combination.
  - b. Decided to limit the scope of the contracts that fall within that guidance to contracts that are accounted for as insurance (or reinsurance) contracts. For example, noninsurance contracts providing for third party contingent commissions or claims liability adequacy guarantees should be accounted for like other business combination contingencies.

#### Objectives of Meeting:

The objective of the meeting was for the Board to reach decisions on:

1. The measurement attribute for a business
2. The classification or designation of certain assets, liabilities, or contracts acquired or assumed in a business combination
3. The disclosures for the final business combination Statement
4. The effective date for the business combinations and noncontrolling interests Statements
5. Certain insurance issues.

The objective was met.

Matters Discussed and Decisions Reached:

**TOPIC 1: COMPARISON OF FAIR VALUE MEASUREMENTS IN IFRS AND U.S. GAAP**

Mr. Nelson began the meeting by stating that during the October 2006 joint meeting, the FASB and the IASB discussed the measurement attribute for business combinations in relation to the different definitions of fair value in U.S. GAAP and IFRS. He noted that Statement 157 defines fair value as an exit price in a current transaction between market participants. IFRS defines fair value as an exchange amount between knowledgeable, willing parties in an arm's-length transaction. He further noted that during the October meeting the IASB affirmed that fair value is the measurement attribute in a business combination and tentatively decided to use the definition of fair value currently in IFRS 3, *Business Combinations*. The FASB deferred making the decision about whether fair value, as defined in Statement 157, is the measurement attribute in a business combination until it could get a better understanding of the potential differences between U.S. GAAP and IFRS if the Boards were to use different definitions of fair value. Mr. Nelson commented that the Boards asked the staff to investigate whether the different definitions of fair value would result in different valuations of assets acquired and liabilities assumed in a business combination.

To make that determination, Mr. Nelson noted that the IASB staff developed a case study and organized a working group comprising representatives from the valuation and appraisal community with experience in applying both U.S. GAAP and IFRS. Each member of the group was asked to complete the case study and to compare and contrast, both qualitatively and quantitatively, the valuation methodologies, techniques, and inputs used to measure the fair value of assets acquired and liabilities assumed in the hypothetical business combination set out in the case study.

Mr. Nelson then highlighted the key findings of the case study based on the responses received. Those findings indicated:

- a. Members of the working group agreed that fair value under both U.S. GAAP and IFRS is a market-based measurement.
- b. Members of the working group commented that they would use the same models, sources of information, valuation approaches, and methodologies under U.S. GAAP and IFRS.
- c. Members of the working group commented that in most situations, the fair value of an asset or a liability that was appropriate for IFRS would also be appropriate for U.S. GAAP and vice versa.

However, working group members noted that given differences in the guidance between U.S. GAAP and IFRS, there are circumstances in which they believe differences in the fair value of the assets acquired and liabilities assumed in a business combination might occur. Specifically, working group members commented that differences in the fair value measurement in a business combination might occur between U.S. GAAP and IFRS under the following five circumstances:

- a. When market participants use an asset for its defensive value. That use would maximize the value of the group of assets in which the asset is used. This concept is not discussed in IFRS but is discussed in Statement 157.
- b. When valuing liabilities using unobservable Level 3 inputs, a difference in the fair value could potentially arise due to the different definitions of fair value. IFRS refer to a “settlement” measurement objective whereas U.S. GAAP refers to a “transfer” measurement objective. The staff believes that if this was to result in GAAP differences, those differences would most likely occur for nonfinancial liabilities.
- c. When fair value measurements are based on different reference markets under U.S. GAAP and IFRS, differences could occur. Respondents commented that they believe those differences are most significant for Level 3-type financial instruments in business combinations involving financial institutions or broker-dealers. Those differences could potentially arise if the principle market is not the most advantageous market or because the use of IAS 39, *Financial Instruments: Recognition and Measurement*, favors the use of an entry price rather than an exit price for unobservable financial instruments.
- d. When there is inconsistent application of the concept of “highest and best use.” The resource group commented that the concept of highest and best use is used in IFRS because the concept is an accepted part of valuation practice. However, as this concept is not explicitly discussed in IFRS, the concept might not be applied in a manner consistent with Statement 157.
- e. When non-performance risk and credit risk are reflected in the fair value of liabilities, differences can occur due to the different guidance. Although the staff believes the Boards have established convergent concepts, particularly

for financial liabilities, they have used different words to express those concepts in Statement 157 and IAS 39.

Mr. Nelson then commented that based on the responses received, the staff reached the following views:

- a. The staff believes that the potential differences identified by the resource group will not lead to significant differences between U.S. GAAP and IFRS in measuring the fair value of assets acquired and liabilities assumed. Further, in situations in which the differences do lead to different valuations, the staff believes the differences will not be so significant as to affect how users of the financial statements view the business combination.
- b. The staff believes that the potential differences identified by the resource group could be short lived as those differences should be addressed by the IASB's ongoing fair value measurements project.
- c. The staff believes that the measurement in a business combination under U.S. GAAP should be fair value as defined in Statement 157.

Mr. Nelson then asked if the Board agreed that the measurement attribute in a business combination should be fair value and that Statement 157 provides the definition of fair value and the related guidance for measuring fair value. The Board agreed with the staff's recommendation. [All Board members agreed.]

Mr. Herz commented that Ms. Seidman believes the staff's memorandum may underplay the differences that will emerge in practice, especially as it relates to defensive value and the measurement of liabilities (layoff to a third party, as required by Statement 157, instead of settlement, which seems to be permitted by IAS 39). However, as there appears to be no other viable alternative, Ms. Seidman stated that she would agree with the staff's recommendation.

## **TOPIC 2: CLASSIFICATION AND DESIGNATION IN A BUSINESS COMBINATION**

Ms. Tamulis commented that the IASB received a number of requests for guidance on when in a business combination one would redesignate or reclassify contracts, assets, and liabilities acquired or assumed. The IASB discussed this issue back in February and asked the staff to develop a principle or guidance for when reassessment would need to occur in a business combination. That is, when one would carry over the acquiree's

classification and when the acquirer would need to go through the process of classifying and designating contracts, assets, or liabilities at the acquisition date. The staff attempted to develop guidance that would codify the guidance that exists in various standards. However, the guidance that exists in various standards is somewhat inconsistent and cannot be codified into a consistent principle (even though each piece of guidance makes sense individually). In addition, the guidance that the staff developed would change U.S. practice related to embedded derivatives, and Board members indicated that they do not support such a change. Instead, Ms. Tamulis proposed that the Board affirm or clarify the guidance that exists in other standards related to the six examples that were most often raised by constituents.

### **Classification of Leases**

Ms. Tamulis commented that Interpretation 21 requires that the acquirer carry over the acquiree's lease classification. Ms. Tamulis then commented that leases classified by the acquiree as capital leases may not qualify as capital leases based on the conditions at the acquisition date. She stated that it would not be appropriate to reassess the lease classification based on the conditions at the acquisition date. As the guidance in Interpretation 21 appears to be clear, Ms. Tamulis noted that the staff recommends not amending Interpretation 21 to require reassessment of lease classifications at the acquisition date. The Board agreed with the staff's recommendation to affirm the current guidance in Interpretation 21. [Six agreed; one did not (TJL).]

### **Classification of Assets Held for Sale**

Ms. Tamulis noted that the staff believes that the acquiree's classification of an asset held for sale is irrelevant to the acquirer and that the acquirer must designate an asset as held for sale at the acquisition date. Ms. Tamulis noted that the staff believes that notion currently is not clear in Statement 144. Therefore, the staff plans to clarify that notion in the final Statement. The Board agreed with the staff's plan for clarification. [All Board members agreed.]

### **Separation of Embedded Derivatives from the Host**

Ms. Tamulis commented that Statement 133 implies that the evaluation of the embedded derivative is performed based on the terms at the acquisition date. Ms. Tamulis noted that although the guidance might not be clear on this subject, in current practice the embedded derivative is evaluated based on the terms at the acquisition date. Ms. Tamulis noted that the principle the staff developed would have changed current practice under U.S. GAAP. Ms. Tamulis noted that during the drafting process of the Exposure Draft, the Board stated that it preferred not to change current practice and the guidance in Statement 133. Ms. Tamulis then asked if the Board wanted to affirm the current guidance in Statement 133. Mr. Trott clarified that under current guidance assessment of the embedded derivative would occur when an entity became party to a contract, which in a business combination would be the date of acquisition. The Board agreed to affirm the current guidance in Statement 133. [All Board members agreed.]

#### **Continuation of the Designation of a Hedge Instrument**

Ms. Tamulis noted that although the guidance is not explicit under Statement 133, current practice in a business combination is to reassess whether a hedge item meets the requirements for hedging at the acquisition date. As hedging is based on intent, the acquirer would need to designate that instrument as a hedging instrument at the acquisition date. The Board agreed with the staff's recommendation to affirm the current guidance in Statement 133. [Six agreed; one abstained (RHH).]

Mr. Herz commented that he is skeptical about the ease in which current practice is able to reassess hedge items. Specifically, he questioned the operability of the reassessment process given the number of restatements occurring in current practice as a result of this issue. Mr. Herz remarked that he does not disagree with the reassessment concept in theory, but noted that it appears as though there is substantial difficulty in the reassessment process that creates a variety of potential and ultimately could lead to the loss of hedge accounting. Mr. Herz noted that he would like to better understand what was occurring in practice before making a decision on this issue. As a result, Mr. Herz noted that he would not vote on this issue at today's Board meeting.



Mr. Linsmeier noted that there would be difficulty regardless of how the Board voted on this issue. Mr. Linsmeier commented that even if there was a carryover, the acquirer would need to be comfortable with the acquiree's designation documentation, effectiveness testing, and assessment of the risks being hedged. An assessment process would need to be in place regardless of whether the acquirer was reassessing to ensure hedged items met hedging requirements at the acquisition date.

Mr. Stoklosa commented that as part of the due diligence process, the acquirer would need to ask the acquiree what hedging relationships are in place and then decide if it wanted to continue those relationship at the acquisition date.

Mr. Linsmeier noted that the acquirer could elect to dedesignate the hedging relationship, bringing the derivatives over at fair value with changes reported in income at the acquisition date and then redesignate the hedging relationship later. Mr. Linsmeier then commented that a designation-redesignation strategy might be simpler for the acquirer rather than allowing a carryover.

Mr. Herz noted that the alternative would be to allow the existing hedging relationships to continue to apply the ongoing criteria and not to force the acquirer to reassess at acquisition date. Mr. Herz commented that without a better understanding of what was occurring, it would be hard for him to make a decision.

### **Classification of Financial Instruments**

Ms. Tamulis noted that the staff believes the classification of financial instruments under Statement 115 to be an intent-based issue in which the acquirer would need to reclassify the acquiree's financial instruments at the date of acquisition. Ms. Tamulis noted that the guidance in Statement 115 was clear on this point. The Board agreed with the staff's recommendation to affirm the current guidance in Statement 115. [All Board members agreed.]

### TOPIC 3: DISCLOSURES FOR THE FINAL BUSINESS COMBINATIONS STATEMENT

Ms. Vessels stated that the Exposure Draft proposed a few broad objectives that were intended to ensure that users of financial statements have adequate information to evaluate the nature and financial effects of business combinations. Those objectives are supplemented by specific minimum disclosure requirements. The staff provided a summary of the disclosures that the staff proposes should be included in the final business combinations Statement, marked to show substantive changes from the Exposure Draft. In making those changes, Ms. Vessels noted that the staff considered comments received from respondents and changes that have resulted from redeliberations of particular issues. For example, the Board decided to add a disclosure to communicate information about the credit considerations factored into the valuation of receivables acquired in a business combination and to modify the disclosures for contingencies and contingent consideration.

#### Converging Disclosure Differences

Ms. Vessels noted that the Board had the opportunity to converge with the IASB for some disclosures and asked the Board to consider eliminating those differences. Specifically, the FASB's version of the Exposure Draft proposed that **only public business enterprises** disclose supplemental pro forma information for **results of operations** (revenue, income before extraordinary items, net income, and earnings per share) of the combined entity for the **current and comparable period** as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. The IASB would require those disclosures for **all entities** rather than only public entities and would not include the "supplemental pro forma" language in its final standard. Also, the IASB would require disclosure of **revenue and profit or loss** rather than results of operations of the combined entity for the **current period only**.

The Board decided to affirm that those disclosures should apply to only public entities. [Five agreed; two did not (TJL, DMY).] Mr. Herz commented that he would leave the

public entity distinction as proposed in the Exposure Draft because the IASB might consider adding that distinction as part of its small and medium-sized entities project. Mr. Linsmeier preferred to expand those disclosures to apply to all entities because he believes that information is also important to nonpublic entity financial statement users.

The Board also decided that for the pro forma disclosures, an acquirer should disclose **revenues** and **net income** rather than results of operations, which converges with the IASB's proposals. [All Board members agreed.]

Finally, the Board affirmed that the pro forma disclosures should be presented for the current period and a comparable prior reporting period (if presented). [All Board members agreed.] Mr. Herz noted that users view the current and comparable period disclosure requirements as a key source of information. Mr. Young suggested that a qualitative disclosure requirement be included for situations in which the prior period is not comparable to the current period because of business combination accounting requirements rather than changes in economics. Board members considered Mr. Young's proposal but ultimately decided not to add such a requirement. [Six Board members agreed; one did not (DMY).]

Ms. Vessels asked if the Board objected to any of the changes proposed by the staff. The Board generally affirmed the disclosures that were proposed in the Exposure Draft, with minor clarifications. [All Board members agreed.]

#### **TOPIC 4: EFFECTIVE DATE FOR THE BUSINESS COMBINATIONS AND NONTROLLING INTERESTS STATEMENTS**

Mr. Rhine commented that there were two issues within the topic, the first of which was the effective date of both Statements and the second was whether early adoption should or should not be permitted. Mr. Rhine noted that the two issues were not separable for many of the Board members. That is, a decision for one would influence the decision for the other. Therefore, Mr. Rhine stated that the staff would present the two issues together.

Mr. Rhine stated that at the February 28, 2007 Board meeting, the Board affirmed the guidance in the Exposure Draft that would require that entities apply both the business combinations and noncontrolling interests Statements at the same time. Additionally, Mr. Rhine stated that members of the Investors Technical Advisory Committee (ITAC) told the Board that new standards should be effective as of the beginning of a year to achieve consistent application and implementation of new standards. Along the same lines, the staff continues to believe that the noncontrolling interests Statement should be effective at the beginning of an entity's annual period as was proposed in the Exposure Draft. Mr. Rhine commented that this was because of the fundamental change to the way noncontrolling interests would be presented and disclosed under the new Statement. Therefore, Mr. Rhine explained that the staff believes the Board should affirm that entities adopt both Statements at the beginning of an annual period.

Mr. Rhine then noted that the staff expects that the IASB will select an effective date of January 1, 2009. The staff also believes the Board has two alternatives: (a) the selection of a December 15, 2008 effective date (effectively the same time as the IASB) or (b) the selection of an effective date earlier than the IASB's effective date. Mr. Rhine commented that proponents of alternative (a) believe that because this is a joint project, the Boards should achieve converged effective dates. Additionally, the FASB, the IASB, and the SEC have some guidance to amend after the Statements are issued. The staff believes those amendments should ideally be made before the new Statements are effective. It is unlikely that those amendments will be completed by December 15, 2007. Mr. Rhine then commented that proponents of alternative (b) believe the final Statements will significantly improve the accounting for acquisitions and the accounting for and reporting of noncontrolling interests. Therefore, they believe the Statements should be effective as soon as reasonably possible. Proponents of alternative (b) also believe that an earlier effective date will allow the final Statements to be more closely converged to current IFRSs.

With respect to early adoption, Mr. Rhine noted that some could argue that since the Boards have developed improved guidance, constituents should be allowed to apply the improved guidance before the effective date if they choose to do so. The IASB often

encourages early application of its standards. With respect to these standards, the IASB has informally indicated that it would likely encourage early adoption for these standards. Mr. Rhine noted that others believe early application impairs comparability. Members of ITAC told the FASB that entities should not be given the option of transition methods as that discretion decreases the comparability of information presented. Additionally, as previously stated, the FASB, the IASB, and the SEC will need to amend some guidance after issuance of the final Statements. Some believe that entities should not be given an option to adopt the proposed Statements before that guidance is amended.

Mr. Rhine then noted that while Board members may select any variation of the above alternatives, the staff believes that there are three views that seem to have support: (a) a December 15, 2007 effective date with no early adoption, (b) a December 15, 2008 effective date with no early adoption, and (c) a December 15, 2008 effective date allowing early adoption. The Board decided to elect an effective date of December 15, 2008, and prohibit early adoption for the business combinations and noncontrolling interests Statements. [Six agreed; one did not (EWT).]

Mr. Batavick noted that in contemplating an earlier adoption date, the Board needed to consider the constituents who had not been following the progression of these Statements. He commented that he believes those constituents would not have a full understanding of the implications of those Statements for some time. Therefore, Mr. Batavick indicated his support for a December 15, 2008 effective date because he believes that date is more realistic for constituents. He further commented that he believes it is important for a converged standard to have a converged effective date. Mr. Batavick stated that he would prohibit early adoption due to the comparability issues it would create.

Mr. Linsmeier commented that he does not support early adoption for the business combinations and noncontrolling interests Statements under any circumstance due to the comparability issues it would create. Mr. Linsmeier then commented that he would support an effective date of December 15, 2008, in the interest of convergence.

Messrs. Crooch and Young echoed Messrs. Batavick's and Linsmeier's comments, indicating that they also support a December 15, 2008 effective date with no provision for early adoption. Mr. Young noted that if there was not a converged standard, he would support an effective date of December 15, 2007.

Mr. Trott commented that he supports early adoption for the business combinations Statement because he believes that Statement to be a transactions-based Statement. Mr. Trott noted that there is no reason to prevent the improved accounting for those transactions. With respect to the noncontrolling interests Statement, Mr. Trott believes that Statement should be adopted at the same time and at the beginning of the year. He commented that he believes the number of entities affected by the adoption of the noncontrolling interests Statement would be relatively small in relation to the number affected by the business combinations Statement. Therefore, Mr. Trott indicated that he supports an effective date of December 15, 2008, and a provision to allow for early adoption.

## **TOPIC 5: INSURANCE CONTRACTS**

Mr. Cropsey stated that the business combinations Exposure Draft provided specific guidance about accounting for insurance contracts acquired in a business combination. At its February 13, 2007 meeting, the Board considered several issues identified by respondents to the business combinations Exposure Draft and requested that the staff perform additional research on some of those issues. At this Board meeting, Mr. Cropsey commented that the staff will seek the Board's tentative decisions on the issues that remained unresolved at the last Board meeting and on certain related issues addressed at that meeting.

As with substantially all assets and liabilities acquired in a business combination, Mr. Cropsey noted that acquired insurance contract assets and liabilities are initially recognized at fair value. This also includes any customer- or contract-related intangible assets. Mr. Cropsey noted that the issues to be discussed at this meeting concern subsequent accounting (called day 2 accounting) for the acquired insurance contracts' assets and liabilities as specified in paragraph 36(b)(2) of the contingencies guidance of

the business combinations Exposure Draft. That is, a fair value model decomposed into a FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, accounting model and an intangible asset.

Mr. Cropsey commented that the staff recommends using a fresh-start model for insurance contracts acquired in a business combination. That is, all insurance contracts are treated as new contracts at the date of acquisition. Mr. Cropsey noted that the staff believes this model to be the most consistent with the notion of purchase accounting, the accounting for other kinds of contracts acquired in a business combination, and most aspects of current practice. He commented that the insurance contract guidance in the final Statement should have a narrow scope and only apply to those contracts that indemnify policy holders and are accounted for as insurance or reinsurance contracts.

At the Board's educational session for this meeting, Mr. Cropsey noted that an IASB staff memorandum recommended that the IASB not address in their final standard the insurance issues raised in comment letters received by the FASB. Mr. Cropsey commented that he believes the FASB should take the same approach. In which case, the only guidance that would need to be provided in the business combinations final Statement is that fresh start (new contracts) is the correct model for acquired insurance contracts and that the scope of the contracts that fall within the final Statement's insurance contracts guidance be limited to contracts that are accounted for as insurance or reinsurance contracts. For example, noninsurance contracts providing for third-party contingent commissions or claims liability adequacy guarantees should be accounted for like other business combination contingencies.

That approach would limit the amount of additional guidance in the business combinations Statement. Mr. Cropsey noted that, with the exception of contract reassessment at the date of acquisition, this guidance was used in current practice. However, Mr. Cropsey commented that he believes there should be a reassessment of risk transfer at the acquisition date for insurance contracts to be consistent with the new contract notion. With respect to the cost of reassessment, he noted that most insurance contract accounting is done on a book-of-business basis rather than a contract-by-contract

basis. He would expect risk transfer to be reassessed at a book level in a business acquisition rather than the contract level required by FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, for reinsurance contracts.

Mr. Trott commented that he would require fresh-start. However, he would not require reassessment for an existing block of business, unless the terms of the contracts have been substantially modified, because he believes that reassessment is not integral to the fair value measurement. Mr. Trott then commented that he believes contingent commissions and guarantees should be accounted for outside the insurance exception or in a manner similar to other contingencies and guarantees.

The Board agreed with the staff's recommendation to provide only high-level supplemental guidance specifying the use of fresh-start (new contract) accounting for measuring and accounting for insurance contracts acquired in a business combination and limiting the scope of contracts that fall within the Exposure Draft paragraph 36(b)(2) guidance to insurance or reinsurance contracts. [All Board members agreed.] Additionally, the Board decided that reassessment to determine whether those contracts transfer significant insurance risk should not be required unless the terms of the contracts were altered substantively in the business combination. [Six agreed; one did not (TJL).]

Follow-Up Items:

None.

General Announcements:

None.