

PricewaterhouseCoopers LLP
400 Campus Dr.
Florham Park NJ 07932
Telephone (973) 236 4000
Facsimile (973) 236 5000
Direct phone (973) 236-7204
Direct fax (973) 236-7770

May 3, 2004

Mr. Lawrence Smith
Director of Technical Application and
Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Proposed FASB Staff Position FAS 97-a, "Situations in Which Paragraphs 17(b) and 20 of FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, Permit or Require Accrual of an Unearned Revenue Liability"

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the proposed FASB Staff Position FAS 97-a (the "Proposed FSP"), "Situations in Which Paragraphs 17(b) and 20 of FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, Permit or Require Accrual of an Unearned Revenue Liability." We generally support the issuance of the Proposed FSP because it clarifies the interaction between AICPA Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* ("SOP 03-1") and FASB Statement No. 97 (FAS 97). However, as discussed below, we recommend the Proposed FSP be clarified to further address the current diversity in practice.

Interaction between SOP 03-1 and FAS 97

As discussed in the FSP, there is diversity in practice regarding the treatment of policyholder assessments that may compensate the insurer for future services. Some question whether the language in paragraph 26 of SOP 03-1 is meant to clarify that such assessments may be recorded as deferred revenue only if the insurer expects losses in future years. We believe the Proposed FSP clarifies that SOP 03-1 was not intended to provide such guidance. We believe this clarification will be beneficial.

Further clarification could decrease diversity

Currently, there is divergence in practice regarding the treatment of “cost of insurance” or “COI” assessments charged to policyholders. Some interpret FAS 97 to allow for the recording of a liability for unearned revenue when additional margins or loads in the form of COI are charged in earlier years and not in later years. Supporters of this view argue that these COI charges are implicit fees for future services, such as services related to investment earnings administration or policy administration, or are initiation fees for which deferral is required under paragraph 20 of FAS 97. Paragraph 54 of FAS 97 notes that accounting rules typically presume that the terms and conditions of a contract entered into between two parties dealing at arm’s length are representative of their agreement. However, it goes on to state that this presumption can be overcome if evidence indicates the substance of the agreement is not captured in the contract. Supporters of deferral believe their pricing documentation or other internal documentation supports deferral. Others believe the additional margins included in the COI fee are not explicit to the policyholder and the amount allocable to other services is indeterminable, and therefore cannot be viewed as compensation for other services or as an initiation fee. Further, they argue that the explicit COI charge is for mortality benefits, and paragraph 60 of FAS 97 indicates that the FASB rejected the suggestion that a portion of early mortality assessments represents compensation for future services.

The Proposed FSP does not address these differing views. We believe that paragraph 54 of FAS 97 implies that the explicit description of fees determines their function. However, most universal life policies have several interrelated parts, and accounting based on the explicit description of fees may not reflect the economics of the product. Accordingly, the consideration of implicit fees may result in accounting that better reflects the economics of the transaction. The FASB Staff may wish to propose guidance on how to determine if some portion of fees explicitly designated as a charge for a certain contract feature are implicitly a charge for future services. If the Staff chooses not to propose such guidance, we recommend that the Board consider the interrelated economics in its Insurance Joint Project with the International Accounting Standards Board.

Other Matters

Paragraph 11 of the Proposed FSP states that it is improper to defer revenue if that deferral “would serve to level mortality assessments in order to produce a level gross profit from that function over the life of the contract.” A “level mortality assessment” pattern would not produce level gross profits because mortality risk is not level. We recommend eliminating “to level mortality assessments in order” from that sentence.

We also recommend that paragraph 14 of the Proposed FSP reiterate that if a reporting enterprise accrues an unearned revenue liability for an insurance benefit feature in accordance with paragraphs 17(b) and 20 of FAS 97, revenue recognized as that liability is released should be included as part of the “amounts assessed for the insurance benefit feature” as described in paragraph 26 of SOP 03-1.



We appreciate the opportunity to express our views. If you have any questions regarding our comments, please feel free to contact Donald Doran at (973) 236-7214 or Amie Thuener (973) 236-4724.

Sincerely,

PricewaterhouseCoopers LLP