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Letter of Comment No: 5
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May 3, 2004

Mr. Lawrence W. Smith
Director, Technical Application and Implementation Activities
Financial Accounting Standards Board
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Proposed FASB Staff Position No. 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:

We agree with the accounting guidance related to the accounting for unearned revenue liabilities that is proposed in paragraphs 8 through 14 of proposed FASB Staff Position No. FAS 97-a. Furthermore, as stated in paragraphs 7 and 13 of the proposed FSP, the scope of the proposal is appropriately limited to addressing whether AICPA Statement of Position No. 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts*, restricts the application 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*, to situations in which losses are expected to follow profits.

The proposed guidance related to the accounting for unearned revenue liabilities is consistent with the conceptual foundations of Statement 97 and with the interaction between Statement 97 and SOP 03-1. The requirement in SOP 03-1 (to recognize a liability for unearned revenue when an assessment results in profits in early years and losses in subsequent years from the insurance benefit function) does not amend Statement 97 and does not limit the requirement of Statement 97 to recognize a liability for unearned revenue to *only* those situations in which losses are expected to follow profits.

Paragraph 15 of proposed FSP FAS 97-a states that that guidance would be effective for "financial statements for *fiscal periods beginning* after" the final FSP is posted to the FASB Web site. [Emphasis added.] Some constituents may infer that the FASB staff intends for proposed FSP FAS 97-a to be effective for *fiscal years* beginning after the



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date on which the final FSP is posted on the FASB Web site. We urge the FASB staff to clarify the effective date language in the final FSP as applying to fiscal *quarters* beginning after the final FSP is posted.

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If you have questions about our comments or wish to discuss any of the matters addressed herein, please contact John Guinan at (212) 909-5449 or Darryl Briley at (212) 909-5680.

Very truly yours,

KPMG LLP