Grant Thornton &

Accountants and Business Advisors

August 24, 2006



LETTER OF COMMENT NO. 33

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856

File Reference No. 1325-100 Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting

We appreciate the opportunity to respond to the Invitation to Comment, Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting. We support the FASB's efforts to enhance the value, transparency, and cost effectiveness of financial reporting for insurance contracts. We support efforts to develop principle-based standards and generally agree that an all or nothing approach to classification of insurance contracts is not the best alternative. However, we believe that a more limited approach to bifurcation, perhaps along the lines of Approach A in the ITC, could address current concerns about classification. We believe that the broader approach illustrated in Approach B may increase accounting complexity for certain corporate policyholders without a corresponding benefit to preparers or users.

Providing more understandable and decision-useful information

We believe that the efficacy of bifurcation is an empirical question that could be addressed by academic research. However, the answer will depend on how the components are defined and how the contract is bifurcated. We believe it to be self-evident that poorly structured definitions and/or measurement methods would not provide more understandable or decision-useful information and would instead introduce additional noise into the financial reporting process.

Characteristics for identifying whether contracts do or do not unequivocally transfer significant insurance risk

The characteristics for identifying whether contracts do or do not unequivocally transfer significant insurance risk would limit contracts that are unequivocally insurance to contracts for a single risk or a single asset, liability, or event. We do not believe it would always be appropriate to exclude all group contracts from consideration as unequivocally transferring business risk. For example, a business that insures a small fleet of vehicles or a number of buildings in various locations for fire may have a reasonable expectation of zero losses in any particular year. Overly

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restrictive criteria would increase the costs of applying and documenting compliance with any future standard without any corresponding benefits to preparers or users.

Approach A or Approach B for identifying contracts subject to bifurcation

We believe that Approach A could provide relevant and understandable information to the users of financial statements. We believe Approach B would add considerably to the cost and complexity of accounting for group insurance contracts without any assurance that there will be corresponding benefits to users in terms of additional information about costs or risks incurred.

If Approach B to bifurcation is adopted, we do not believe that calculations for small groups are likely to provide reliable estimates of the insurance or deposit components at a reasonable cost. Therefore, the bifurcation requirements should apply only to those group contracts that are sufficiently large to allow for meaningful calculation of the components at a reasonable cost. The suggested criteria would be particularly burdensome for smaller entities and we believe that it is not likely that the resulting information would be useful to the users of the financial statements of smaller and privately held entities or not-for-profit organizations.

Different criteria for insurance contracts and reinsurance contracts

We are not convinced that the economic substance of insurance and reinsurance is always the same. Insurance companies have the expertise and volume necessary to aggregate and lay off risks in a manner that is not available to many purchasers of insurance contracts. Also, while the reasonably diligent users of financial statements of insurance entities may be assumed to have the knowledge to interpret the recognized and disclosed information we are not sure that the same assumption would be reasonable for the users of the financial statements of noninsurance entities. Therefore we do not believe that an *a priori* determination can be made in regard to the symmetry of criteria for the two parties. Additional research into the differences and similarities between insurance and reinsurance may prove useful in informing this aspect of the project.

We would be pleased to discuss our comments and recommendations with Board members or the staff. Please direct your questions or comments to Joseph Graziano at (732) 516-5560 or John Hepp at (312) 602-8050.

Sincerely,

/s/ Grant Thornton LLP