



August 24, 2006

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CN 06856-5116

File Reference No. 1325-100

Dear Sir/Madam:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Invitation to Comment on Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These recommendations and comments represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which the members are associated.

Our comments are as follows:

We do not believe bifurcation of insurance contracts by all policyholders results in information that is incrementally relevant or useful. We further believe that the cost to non-insurance company policyholders of obtaining the information necessary to bifurcate such contracts likely far outweighs the incremental information provided to financial statement users as a result of bifurcation of those policies. We believe this is a prime example of the concern being raised by preparers and users as to the complexity of accounting standards.

Currently, policyholders record payments to insurance companies for insurance coverage as prepaid insurance and amortize that to expense over the term of the policy. The idea that some portion of the insurance premium is an advance payment against some future recovery and should be recorded as an asset is difficult to comprehend. If there is an asset in this situation, it is likely a contingent asset that, even if recognizable under SFAS No. 5, would be amortized over the course of the current year (premiums being paid annually). While we accept the premise that some insurance policies contain elements of administration as well as risk transfer, we question the incremental information that would be provided to users as weighed against the cost of bifurcation of those contracts. The fact that some portion of an insurance premium relates to the cost of administering the program does not appear to significantly alter the financial statement presentation of

the amounts remitted. Indeed, some portion of every insurance premium relates to administration, some is the insurance company's profit, and some is pure risk transfer, all of which are influenced by the current market place competition among insurance providers. Prepaid insurance and "prepaid insurance administration" are both likely to be reported as other current assets and both likely to be amortized to general administration expenses over the term of the policy.

Policyholders who make payments to insurance companies or other entities for the purpose of investment to provide funding of potential future claims appropriately record those payments as assets and account for them in accordance with SOP 98-7. In this instance, those entities are self-insured for the exposures being serviced by this managed portfolio and accrue liabilities and related expenses in accordance with SFAS No. 5, SFAS No. 106, or other appropriate standards. If the Board has concerns about self-insurance, we would encourage it to consider a project to address those concerns.

Our comments in response to the Issues raised in the document are as follows:

What is an insurance contract?

Issue 1 – We believe existing definitions under GAAP, including SOP 98-7, provide sufficient guidance for policyholders.

Statement No. 113 and the Risk Transfer Conditions

Issue 2 – We believe Statement No. 113, in conjunction with paragraph 44 of Statement No. 5 and with SOP 98-7, provide sufficient guidance to policyholders, insurers and reinsurers in this situation.

Conceptual Framework - Decision Useful Information

Issue 3 - As discussed above, we do not believe that the bifurcation of insurance contracts by all policyholders provides incrementally relevant or useful information.

Scope

Issue 4 – As above, we do not believe bifurcation is appropriate for all policyholders.

The Unequivocal Test for Insurance Accounting

Issue 5 – We do not believe the characteristics as listed are a significant improvement. As indicated above, we do not agree with the bifurcation of insurance contracts by non-insurance company policyholders. The complexity inherent in this process will not result in the addition of relevant or useful information to the financial statements of non-insurance company policyholders and, in our judgment, is not cost-justified.

Issue 6 – We believe FAS 113, coupled with SOP 98-7, provides sufficient guidance as to the characteristics of insurance contracts. The characteristics described in paragraph 58 provide minimal incremental improvement.

Determination of Whether to Bifurcate an Insurance Contract Possible Bifurcation Methods

Issues 7, 8, 9 and 10 – As noted above, we do not believe this should be applied to all policyholders. While bifurcation of finite contracts may be desirable, the extension of this concept to all contracts under Approach B and the inclusion of non-insurance company policyholders are not cost effective. It adds unnecessary complexity.

Convergence

Issue 11 – See our comments above.

We appreciate the opportunity to offer our comments.

Sincerely,

Leonard C. Soffer, Chair

Accounting Principles Committee

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APPENDIX A ILLINOIS CPA SOCIETY

ACCOUNTING PRINCIPLES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES

2006-2007

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large (National Firms):

Matthew L. Brenner, CPA James L. Fuehrmeyer, Jr., CPA

John A. Hepp, CPA Alvin W. Herbert, Jr., CPA Steven C. Johnson, CPA Matthew G. Mitzen, CPA J. Christopher Rabin, CPA Mark K. Scoles, CPA

Reva B. Steinberg, CPA Joan Waggoner, CPA

Medium (more than 40 employees):

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David L. Senteney, CPA Leonard C. Soffer, CPA

Staff Representative:

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PricewaterhouseCoopers LLP
Deloitte & Touche LLP
Grant Thornton LLP

Retired/Clifton Gunderson LLP McGladrey & Pullen LLP Virchow Krause & Company, LLP

McGladrey & Pullen LLP
Grant Thornton LLP

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Selden Fox, Ltd.

BDO Seidman LLP

Baygood & Rose Chartered Miller, Cooper & Co. Ltd.

Ostrow, Reisin, Berk & Abrams, Ltd.

Walter J. Jagiello, CPA Benham, Ichen & Knox LLP

McDonald's Corporation

The Boeing Co.
TTX Company

RR Donnelley Logistics

Retired/Natural Gas Pipeline Company of America

Ohio University

University of Illinois at Chicago

Illinois CPA Society