

October 15, 2007

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



File Reference 1540-100

Dear Sir/Madam:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide our perspective on the Invitation to Comment, Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, Preliminary Views on Insurance Contracts. The organization and operating procedures of the Committee are reflected in Appendix A to this letter. These 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.

Question 1: Is there a need for the FASB to comprehensively address accounting for insurance contracts? Why or why not?

We do not believe that there is an urgent need to change insurance accounting at this time. We do believe that some related issues, such as the accounting for contingent assets and liabilities and the accounting for reinsurance may be useful, but not a wholesale change in the accounting model for insurance companies. Should a project go forward, we believe it should be coordinated with national and international insurance regulators. The insurance industry is unique and the needs of users of financial statements other than investors, notably regulators and policyholders should be taken into account.

a. What aspects of existing U.S. GAAP accounting for insurance contracts could be improved or simplified and how pervasive are these issues?

In our opinion, the accounting for reinsurance in Statement 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts, could be one area where the accounting could be improved. An objectives-based standard that is more consistent with the accounting for other financial instruments that transfer risk could improve transparency to users and regulators.

b. How important is the development of a common, high-quality standard used in both the U.S. and IFRS jurisdictions?

We believe that a common standard for insurance is not a high priority in the short term given the local nature of regulatory and legal issues but that ultimate convergence should remain a goal. The market for reinsurance is more global and convergence in reinsurance may be a higher priority than the accounting by policyholders or insurers

Question 2: Are the preliminary views expressed in the IASB's Discussion Paper a suitable starting point for a project to improve, simplify, and converge U.S. financial reporting for insurance contracts? If not, why not?

We believe that the current proposal is not a suitable starting point for improving or simplifying insurance accounting. The proposed accounting will require frequent complex valuation assessments by an actuary using hypothetical markets for transactions that often cannot ever occur. The costs are high and certain while the benefits at this point are in doubt. Until we have more experience assessing the practicability of Statement 157, Fair Value Measurements, and assessing the utility of the information to users, we do believe it should be extended to an area where the appropriateness of the fit of the model has not been substantiated with empirical data. For example, many users may be more interested in unearned premium information than fair values based on exit values. The issues deserve more research.

We also question the revenue recognition provisions in the IASB document. Among other issues, we think there needs to be further discussion of revenue recognition in concept before a project proceeds that would recognize net economic benefits from future premiums when the insurer is unable to make the policyholders pay those premiums

We also believe that there need to be more conceptual agreement on issues such as the effects of a change in credit rating and the impact on the insurance liability calculation. If the company's credit rating decreases, it could lead to a decrease in the insurance liability and possibly a gain recognized in its income statement. We do not believe that current actuarial models include the impact of credit standing on insurance liabilities and whether this would be the information useful to investors, regulators, policyholders or other users of the financial statements.

We note that all insurance products currently sold are not the same. A good starting point may be to identify different types of products and common characteristics. We believe it would be better to address those with common economic characteristics in separate projects rather than trying to squeeze products with substantially different economic substances into a single project. For example, certain policies that provide retirement benefits (Statement 97) may be better addressed within Phase II of the Postretirement Benefits project. Policies where insurers may service primarily as administrators of medical claims, whether as insurers or third party administrators of self-insured plans, should perhaps be a separate category as well.

a. Do you believe the preliminary views would be feasible to implement? If not, what aspects of the preliminary views do you believe could be difficult to apply and why?

We believe that the continuous application of exit values to insurance contracts based on hypothetical but non-existent market transactions would be costly and of unproven benefit. In addition to the one-time transition costs to replace information systems, there will be a substantial recurring effort and cost to update information using complex models that require extensive judgment and may not be amenable to automation.

b. Are there other alternatives to improve or simplify U.S. financial reporting for insurance contracts that you would recommend? What would be the benefits of those alternatives to users of financial statements?

We believe that it would be useful to wait for the results of the codification project in order to facilitate.

Question 3: Is there a need to address accounting by policyholders in an insurance contracts project? Why? If yes, should accounting by policyholders be addressed at the same time as the accounting by insurers? Can or should that wait until after the accounting by insurers is completed?

We believe that the most important needs of policyholders can be addressed by reexamining Statement 5, Accounting for Contingencies, rather than by looking at insurance policies in isolation.

Question 4: How would you address the interaction between the accounting for insurance contracts and the FASB's other projects on the conceptual framework, revenue recognition, liabilities and equity, financial instruments, and financial statement presentation? Are certain projects precedential?

Ideally, the FASB conceptual framework project would be precedential. If the approach in the IASB paper is taken as a starting point, then we believe that, at a minimum, work on this project should be deferred until the revenue recognition is completed.

We appreciate the opportunity to offer our comments.

Sincerely,

John A. Hepp, Chair Accounting Principles Committee

APPENDIX A ILLINOIS CPA SOCIETY

ACCOUNTING PRINCIPLES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES

2007-2008

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 & regional) John A. Hepp, CPA

Alvin W. Herbert, Jr., CPA Steven C. Johnson, CPA Matthew G. Mitzen, CPA Laura T. Naddy, CPA

Reva B. Steinberg, CPA Jeffery P. Watson, CPA

Medium: (more than 40 employees)

Barbara Dennison, CPA Marvin A. Gordon, CPA Ronald R. Knakmuhs, CPA Laurence A. Sophian, CPA

Small: (less than 40 employees) Walter J. Jagiello, CPA Kathleen A. Musial, CPA

Industry:

John M. Becerril, CPA Melinda S. Henbest, CPA James B. Lindsey, CPA Anthony Peters, CPA

Educators:

James L. Fuehrmeyer, Jr. CPA David L. Sentenev, CPA Leonard C. Soffer, CPA

Staff Representative:

Paul E. Pierson, CPA

Grant Thornton LLP

Retired/Clifton Gunderson LLP McGladrev & Pullen LLP

Virchow Krause & Company, LLP Crowe Chizek and Company LLC

BDO Seidman LLP

Blackman Kallick Bartelstein LLP

Selden Fox, Ltd.

Frost, Ruttenberg & Rothblatt, P.C.

Miller, Cooper & Co. Ltd.

Ostrow, Reisin, Berk & Abrams, Ltd.

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

Cabot Microelectronics The Boeing Co. TTX Company

McDonald's Corporation

University of Notre Dame

Ohio University University of Chicago

Illinois CPA Society