Deloitte



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LETTER OF COMMENT NO.

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Ms. Suzanne Bielstein Director, Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

File Reference No. 1540-100

Re: Invitation to Comment, An FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, Preliminary Views on Insurance Contracts

Dear Ms. Bielstein:

Deloitte & Touche LLP is pleased to comment on the Invitation to Comment, An FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, Preliminary Views on Insurance Contracts (the "Invitation to Comment").

We support adding this project to the FASB's agenda because it will allow the FASB to work closely with the International Accounting Standards Board (IASB) in developing a globally converged standard on insurance contracts. Since the IASB needs to add comprehensive guidance on accounting for insurance contracts to its set of standards, we believe it is imperative for the FASB to participate in the development of this guidance for a large international industry.

As we have indicated in previous letters, we support global convergence for high-quality accounting standards. Accordingly, we commend the Board on its continued efforts to work closely with the IASB and other national standard setters to develop high-quality standards that will be applied globally.

The appendix to this letter contains responses to the questions posed in the Invitation to Comment. If you have any questions concerning our comments, please contact Bob Uhl at (203) 761-3152 or Mark Parkin at (212) 436-4761.

Yours truly,

Deloitte & Touche LLP

Deloitte & Touche LLP Responses to Request for Comments

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

a. What aspects of existing U.S. GAAP accounting for insurance contracts could be improved or simplified and how pervasive are these issues? b. How important is the development of a common, high-quality standard used in both the U.S. and IFRS jurisdictions?

We would not recommend that the FASB take on this project of its own accord, since many of its other projects are higher priorities and U.S. generally accepted accounting principles (GAAP) already have a comprehensive set of insurance standards. While these standards could certainly be improved, they are accepted and well understood by users, preparers, and auditors.

However, we understand the need for the IASB to develop guidance on accounting for insurance contracts, since international financial reporting standards (IFRSs) do not currently contain such guidance. We believe that users of financial statements would significantly benefit from a common, high-quality standard that is applied internationally by participants in the insurance industry and that the FASB should work closely with the IASB in developing such a standard.

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?

- 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?
- 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 the discussion paper is a suitable starting point for a project to develop a comprehensive standard on accounting for insurance contracts. While we believe there is a need to explore certain related issues in more detail, we agree that a fair value concept under FASB Statement No. 157, *Fair Value Measurements*, or a current exit price view as described in the discussion paper, is the logical way to begin the discussion.

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One problem with current insurance accounting under U.S. GAAP is that the accounting model for an insurance contract can be significantly different from the accounting model for a financial instrument that is similar to an insurance contract but determined not to be insurance (e.g., written by a noninsurance entity). This difference results in more complex accounting. However, by accounting for insurance contracts at current exit value as described above, the difference is mitigated (particularly if the FASB continues to expand the use of fair value measurements for financial instruments).

We believe that in developing a new model to account for insurance contracts, the IASB and FASB should explore further implementation concerns associated with the availability of market participant information. While insurance contracts are often similar to other financial instruments, they differ significantly from most financial instruments in one aspect — transferability. Most insurance contracts are not traded, the writer of the contract has no intention of trading the contract, and unlike most financial instruments, there are significant barriers to transferring the contracts because of the legal and regulatory framework.

Please see the responses sent to the IASB by Deloitte Touche Tohmatsu for our global organization's views on specific aspects of the discussion paper.

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 a comprehensive insurance model should provide guidance for both the insurer and the insured. While an insurance premium is typically a relatively insignificant amount in an insured's financial statements, current standards contain little guidance on accounting for certain aspects of insurance policies, including transfer of risk and recognition of claims reimbursements. The FASB's ongoing risk transfer project will provide policyholders with some guidance on accounting for insurance contracts while the insurance project is developed. Accounting guidance for policyholders should be incorporated into the new comprehensive standard.

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 should first make significant progress on its other projects, especially the revenue recognition and financial instrument projects. Insurance accounting is

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essentially a subset of these two larger projects; therefore, decisions made in these projects will significantly affect the accounting for insurance contracts.

However, because the insurance project is such a high priority for the IASB, it is not practical for the FASB and the IASB to wait to begin this project until after the other projects are completed. The two boards should try to accelerate any decisions in the other projects that could significantly affect the insurance contracts project.
