



LETTER OF COMMENT NO. 37

November 12, 2007

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

File Reference 1540-100

We appreciate the opportunity to comment on the Invitation to Comment, *Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, Preliminary Views on Insurance Contracts* (the "ITC"). Huron Consulting Group has significant experience in advising clients on complex accounting issues and restatement matters, including identifying the causes for the misapplication of GAAP. We agree that the FASB should address the accounting for insurance contracts, but we do not believe that consideration of a new model requires immediate attention.

We recognize the conceptual merit of a single accounting model that would apply to all types of insurance contracts, including reinsurance, regardless of the identity of the issuer. We understand the FASB and IASB share a goal of converging on high quality accounting standards, and we also understand that US accounting standards addressing insurance contracts are not considered to be of sufficiently high quality to serve as the basis for a converged standard. That latter point was communicated most clearly through the chart in paragraph 23 of the ITC. While we share the goal of converged, high quality accounting standards, it is not clear to us that there are significant problems in applying the guidance on insurance and reinsurance contracts, except as discussed further below. Accordingly, we do not believe the FASB should place a high priority on developing a new accounting model for insurance contracts. Additionally, we question whether fair value is the relevant measure of insurance liabilities for all types of insurance and all users of financial statements; therefore, we believe the fair value option of SFAS 159 is adequate.

We believe there are three aspects of the current accounting model for insurance contracts that should be amended. First, we believe the definition of an insurance contract should be broadened to include the financial risks covered by credit insurance and financial guarantees. We believe creating a distinction between types of risk is arbitrary and leads to accounting for similar economic arrangements differently for no apparent reason. Second, we believe the FASB should provide application guidance on when a contract transfers significant risk such that it qualifies as insurance (or reinsurance). We note that this issue is also not addressed in the IASB Discussion Paper. Finally, we believe either the definition or the application guidance should provide clear guidance on the accounting for contracts that cover two or more unrelated risks where the

arrangement transfers insurance risk for one element but not for the other. We believe companies are currently accounting for such arrangements entirely as insurance.

We do not support the preliminary views expressed in the IASB Discussion Paper. We are concerned with the ability of insurers (particularly small and mid-size companies) to implement an approach that requires them to mark their insurance liabilities to fair value (or model, given the absence of a significant number of transactions that could be used to provide independent evidence of fair value). We do not believe that an exit value based on a hypothetical transfer is appropriate for insurance contracts that are held for the life of the contract. Additionally, the factors used by an insurer to value a block of business that is transferred (for example, through a reinsurance transaction) are not transparent to market participants; as a result explicit, unbiased, market-consistent estimates of cash flow could not be used to determine a current exit value.

We are not in favor of unbundling insurance contracts. We believe requiring contracts to be separated into a financing component and an insurance component will only add to complexity and question what benefit investors will receive from the additional effort it would take to provide that information.

The IFRS 4 definition of insurance contracts is “a contract under which one party (the insurer) accepts *significant insurance risk* from another party (the policyholder)” [Emphasis added]. We believe that this definition could be improved by explaining what the IASB means by “significant.” We do not believe the definition will be helpful if that term is not defined or explained.

If the FASB decides to add a project on insurance contracts, we believe it would be useful to field test the views in the IASB Discussion Paper with a representative sample of small, medium and large insurers to understand whether the information needed to estimate contractual cash flows from a market participant’s perspective is available or can be obtained at an appropriate cost. We question whether any single insurer has information beyond its own view of current market conditions embedded in its own pricing process.

While the IASB states in the Discussion Paper that it does not intend to make significant changes to disclosure requirements for insurance contracts, we believe that additional disclosures relating to insurance contract liabilities would be an efficient improvement to current accounting models. Adding certain disclosure requirements could help address the concern regarding insurance reserving practices that can serve to manipulate net income and equity. For example, we believe that insurers should be required to disclose their estimated range of reserves, and the reasons for changes to recorded reserves within the range. Disclosures could be added relating to the development of reserves over time against ultimate payout on the contracts. These would add to the financial statement users’ ability to understand movements in reserves and make manipulation more difficult.

We do not believe that accounting for insurance contracts by policyholders needs to be linked to accounting by insurers. We believe the primary issue affecting policyholders is determining when the policyholder should account for a contract as insurance.

We would appreciate the opportunity to participate with the due process on this issue. If the Board or the Staff would like to discuss any of our concerns or our experience with restatements, please call Robb Armour at 312-880-3265, or Jeff Ellis at 312-880-3019.

Sincerely,

/s/ Robert E. Armour

Robert E. Armour
Director

/s/ Jeffrey H. Ellis

Jeffrey H. Ellis
Managing Director