



Group of North American Insurance Enterprises

40 Exchange Place, Suite 1707 • New York, NY 10005 • United States

March 13, 2012

Ms. Leslie Seidman, Chairman  
Financial Accounting Standards Board

Hans Hoogervorst, Chairman  
International Accounting Standards Board

Re: A revision of ED/2010/6: *Revenue from Contracts with Customers* and FASB File Reference No. 2011-230: *Revenue from Contracts with Customers* (collectively referred to as the Revised Exposure Draft).

Dear Mr. Hoogervorst and Ms. Seidman:

The Group of North American Insurance Enterprises (“GNAIE”) is pleased to provide comments to the Revised Exposure Draft which is intended to establish a comprehensive framework for revenue recognition.

We fully support the scope exception for insurance contracts that is found in paragraph 9(a) of the Revised Exposure Draft. As you are fully aware, the Boards are currently deliberating a new proposed insurance model. For all types of insurance contracts, the issues of revenue and loss recognition are highly interrelated and therefore must be evaluated collectively within that separate project. However, we follow other contemporaneous FASB and IASB joint projects to evaluate “cross-cutting” issues because when it is relevant and appropriate, we believe the Boards should reach consistent conclusions across different projects. We note that many insurance companies issue “Administrative Services Only” contracts that do not meet the definition of insurance contracts that the Boards have developed. Such contracts would be within the scope of the Revised Revenue Recognition Exposure Draft, and we believe that they would be treated appropriately on that basis.

In the insurance contracts project, both Boards have tentatively decided that some insurance contracts should be eligible for the Premium Allocation Approach (“PAA”). Both Boards have indicated that the PAA should not be used for insurance contracts for which: 1) it is likely that there will be a significant change in the expectations of net cash flows in the period before a claim; or 2) significant judgment is required to allocate the premium to the insurer’s obligations for each reporting period. The conclusions in the Revised Exposure Draft are most likely to be applicable to the insurance contracts for which neither of these conditions applies (i.e., the insurance contracts that are eligible for the PAA).

**Douglas Wm. Barnert**  
Executive Director

**Jerry M. de St. Paer**  
Executive Chair

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There are multiple principles contained within the Revised Exposure Draft which could be applied to short duration insurance contracts (as defined with Accounting Standards Codification 944). Those “cross-cutting” issues are further discussed below:

1. Identify the separate performance obligations in the contract. For short-duration non-life insurance contracts, we would account for the insurance contract as a single performance obligation as the services in the contract are highly interrelated and the services offered are significantly modified or customized to fulfill the contract.
2. Determine the transaction price. The proposed standard provides a practical expedient such that the consideration received for a contract does not need to reflect the time value of money if the period between customer payment and the provision of services is one year or less. Since the vast majority of short-duration contracts have a coverage period which is one year or less, we would not expect the Boards to apply the time value of money notions to our unearned premium reserves for those contracts.
3. Recognize revenue when or as the entity satisfies a performance obligation. Again, for short duration contracts, we would recognize revenue over time by consistently applying a method of measuring the progress toward complete satisfaction of that performance obligation. In general, the method of recognition would be spread equally over the coverage period of the insurance contract since there are few patterns consistently apparent (such as seasonality) which would indicate allocation other than pro rata over the contract coverage period.
4. Onerous performance obligations. For a performance obligation that an insurer satisfies over time and that the insurer expects at contract inception to satisfy over a period of time greater than one year, an entity would recognize a liability and a corresponding expense if the performance obligation is onerous. Under the Revised Exposure Draft, a performance obligation would be onerous if the lowest cost of settling the performance obligation exceeds the amount of the transaction price allocated to that performance obligation. Again, based on the fact that a vast majority of short duration contracts have coverage periods of one year or less, we would not expect the onerous contract provisions to be applied.
5. Contract costs. The Revised Exposure Draft also specifies the accounting for some costs of obtaining or fulfilling a contract with a customer that could also be applied to short duration contracts. In general, we support that an entity would recognize as an asset the incremental costs of obtaining a contract if the entity expects to recover those costs.

As previously stated, we are wholly supportive of the scope exception for insurance contracts but believe many of the principles contained within the Revised Exposure Draft can and should be applied to short duration insurance contracts within a new proposed insurance model.

Douglas Wm. Barnert  
Executive Director

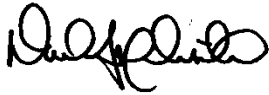
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If the Board(s) desires a further discussion of our views please contact Doug Barnert at (212) 480-0808.



Sincerely,

Dave Christensen, Chairman

Revenue Recognition Subcommittee of GNAIE Accounting Convergence Committee