December 1, 2010

Leslie F. Seidman, Acting Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

(Submitted via email to “director@fasb.org”)


Dear Ms. Seidman:

The International Business Machines Corporation (“IBM” or “the company”) appreciates the opportunity to comment on the Discussion Paper (DP), Preliminary Views on Insurance Contracts.

IBM would like to provide its views on Questions 3 and 4 of the DP regarding definition and scope.

Question 3: Do you agree with the proposed scope exclusions? Why or why not?

Answer: On a general note, we believe that including non-insurance companies in the scope of this guidance will result in additional administrative burden and cost to these companies with little benefit to financial statement users.

Like most multi-national companies, IBM guarantees certain loans and financial commitments on behalf of its subsidiaries. Further, in the normal course of business, IBM is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters. We are concerned that applying the insurance model to these guarantees would be onerous and costly without additional benefit to financial statement users. If the Board is not comfortable with limiting application of this guidance to insurance entities, we recommend that the definition of an insurance contract be revised to clarify that these types of guarantees do not meet the definition of an insurance contract for purposes of applying the proposed guidance.

Question 4: Should benefits that an employer provides to its employees that otherwise meet the definition of an insurance contract be within the scope of the proposed guidance? Why or why not?

Answer: IBM provides certain health and welfare benefits (e.g. medical, dental, vision, long-term disability and life insurance) to its employees for which the company is self-insured. The premiums charged to employees are subsidized by the company and are not at market value.
We believe that these arrangements represent benefits to employees as part of an overall compensation program and are not insurance contracts with employees. They are regarded by management as a cost of employment since the company does not seek to make a profit from such arrangements as an insurance company would. This makes us fundamentally different from an insurance company. Unlike a “for-profit” insurance company, the present value of the premiums that a self-insurer receives will usually be less than the present value of the expected cash outflows. This will lead to an uneconomic consequence for self-insurers if they are required to record onerous contract liabilities at the inception of an employee insurance arrangement, pulling forward unrealized losses before employee premiums are received.

We are concerned that companies will change their benefit plans to match a new insurance accounting standard and that companies may reduce their benefits to employees as a result.

Therefore, we urge the FASB to take an approach similar to the IASB and exclude employer provided health insurance from the scope of a future insurance standard. We recommend that this issue be taken up after the Memorandum of Understanding (MoU) deadline as a separate project.

Thank you for the opportunity to comment on this proposal. If you have any questions, please do not hesitate to contact me at 914-766-3190 or at gln@us.ibm.com.

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