December 13, 2010

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Via Electronic Mail: director@fasb.org, File Reference No. 1870-100


Dear Sir/Madame:

Standard & Poor’s Ratings Services (Standard & Poor’s) appreciates the opportunity to provide the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB—collectively, the Boards) our comments on the IASB’s exposure draft Insurance Contracts and the FASB’s discussion paper Preliminary Views on Insurance Contracts (unless specifically noted, collectively the Boards’ proposals). The views expressed in this letter represent those of Standard & Poor’s Ratings Services and do not address, nor do we intend them to address, the views of any other subsidiary or division of Standard & Poor's Financial Services LLC or of its parent, The McGraw-Hill Companies. We intend our comments to address the analytical needs and expectations of our credit analysts.

Our general comments on the Boards’ proposals follow. We have provided our comments in the context of decisions reached by both Boards, although we understand the FASB’s decisions are only preliminary views.

An overarching view in this letter, consistent with our previous comments to the Boards, is that accounting models should provide, to the greatest extent possible, symmetry between the economic basis and accounting depiction of business transactions. We understand that views on what is “economic” may vary, but we believe reducing the number of accounting constructs within reported financial information available globally generally improves the quality of that information. We generally support the accounting changes proposed by the IASB. Specifically, we believe the proposed accounting model will improve the accounting for traditional long-duration insurance contracts. We also support the simplified approach for contracts traditionally referred to as short-duration.
insurance contracts. However, we also have concerns about certain aspects of the proposed accounting, for example:

- The proposed accounting will introduce volatility into the financial results. More specifically, changes in interest rates will cause potentially significant swings in earnings and capital. In instances where there is a sound asset-liability matching strategy in place, we do not believe significant swings in earnings and capital are reflective of the underlying economics. However, to the extent there is a mismatch or an impact because of changes in credit risk or markets, we believe highlighting those changes in the financial results is useful.

- The incorporation of a risk adjustment is a relatively new concept in most regions, and the accounting guidance should allow for the development of new methodologies to calculate such an adjustment. Robust disclosures about the risk adjustment are essential to accommodate it, in our view.

- The description of the boundary of a contract creates issues where contracts historically considered as short duration (such as some annual health insurance contracts) would be subject to the full accounting model. We believe these contracts should be accounted for under the simplified approach; otherwise, certain key metrics will not be able to be calculated, such as loss ratio, expense ratio, and combined ratio.

- The full accounting model presentation applies a summarized margin approach. We believe information related to volume measures is important to our analysis and, if this information is not included on the face of the income statement, it should be included in disclosures.

**Overview**

We support an accounting model for insurance contracts that would provide, to the greatest extent possible, symmetry between the economic basis and accounting depiction of insurance contracts; more meaningfully reflect the management of financial risks; better facilitate peer comparisons; and provide a converged global accounting framework to promote analytical relevance and consistency in financial information reported for analysis. A fundamental aspect of managing insurance risk is through supporting an insurance company’s obligations with assets (investments) that appropriately match or support the ultimate payment of the obligations. We analyze insurers from this perspective and evaluate how well they manage the timing of claim payments with their ability to make those claim payments (liquidity). One challenge in providing a comment-letter response is that the Boards’ projects on financial instruments may significantly change the accounting for investments which may influence our views on the accounting for insurance contracts.¹ Accordingly, we believe new accounting pronouncements for the assets and the liabilities of insurees should have a common implementation date.

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We generally support the accounting changes proposed by the IASB simply because current accounting practices vary across jurisdictions and the quality of information provided is inconsistent, impeding analytical comparability. Partly because of the accounting and financial reporting inconsistencies we have experienced, and the need for further information, our analysis incorporates other sources of information and does not rely solely on general-purpose financial statements. For example, the significant variations in how insurance contracts are measured under International Financial Reporting Standard (IFRS) 4 led to European and Asian life insurers providing embedded value (EV, including market-consistent embedded value) metrics.² Further, in the U.S., our analysts rely on the statutory financial statements as a starting point for our capital adequacy analysis. However, to analyze operating performance, those analysts prefer U.S. GAAP-based metrics of earnings.

We support the IASB’s measurement approach, i.e., an approach that discounts all insurance liabilities and applies a risk adjustment plus a residual margin. We believe the depiction of a risk adjustment can provide analysts with insight into management’s perception of the risk in its business, and, when coupled with the appropriate disclosures, analysts should be able to perform peer comparisons across insurers on their approach to managing and mitigating insurance risk. However, regarding the methodology to determine a risk adjustment, we believe the allowable methodologies should not be limited, because doing so does not allow for the evolution of risk-adjustment techniques. That said, we recommend the Boards expand the explanation of the objective of the risk adjustment to help insurers understand the goal of the adjustment. Robust disclosures are essential in understanding management’s approach to risk adjustments.

We also support the proposed accounting for short-duration insurance contracts. We believe the contracts designated for this simplified approach embody characteristics that require a less-complex approach to accounting. Specifically, the short-term nature of these contracts generally is not significantly affected by the time value of money. Further, many of these contracts are service contracts (rather than financial instruments), and should continue to be presented as such (with premium and claims shown in the income statement). However, we do not support the proposed one-year cutoff. We believe an approach similar to current U.S. Generally Accepted Accounting Principles (GAAP) practice for short-duration contracts is more appropriate (where the coverage period is not specifically stated but practice has developed) for revenue recognition and presentation purposes (because the claim liability is already subject to the full measurement approach). (See Pre-Claims Liability For Short-Duration Contracts, below.) Further, we have concerns about the contract boundary and the potential unintended consequences that may result for insurance contracts traditionally accounted for as short duration. We understand the conceptual accounting merits surrounding the contract boundary issue, but believe requiring insurers that provide certain health insurance coverage or enter into proportional reinsurance contracts to potentially treat these contracts as long duration (and provide expectations of future losses and future premiums beyond one year) will

² While our analysts use this supplementary information, we generally do not support embedded value as a replacement for the appropriate accounting because it is not audited and is not consistently applied.
overcomplicate reporting for these products. This potentially could eliminate historically significant metrics we found useful to our analysis.

We only support the proposed presentation for the full accounting model proposed in the IASB’s Exposure Draft if there is disclosure of information pertinent to understanding the volume of business (as currently proposed). The proposed presentation is similar to a source-of-earnings approach, and provides relevant information about which part or parts of the measurement are driving changes (or offsetting each other). In the past, we generally found this type of presentation to be useful to our credit analysis (for example, Canadian life insurers currently provide a similar type of presentation in their annual reports). We also support the proposed disclosures and believe the enhanced disclosures pertaining to inputs, assumptions, valuation techniques, and reconciliations and sensitivity analysis of key inputs and amounts further enhances the ability to analyze changes in the proposed measurement. We believe the Boards’ proposals provide significant disclosures to assist analysts, but we have further suggestions to enhance those disclosures. To the extent the Boards cannot reach a converged solution in certain areas, we recommend the disclosures include a reconciliation of any differences between U.S. GAAP and IFRS.

While market discipline will play an important role in how the standard’s principles ultimately are applied, we hope the Boards will provide more examples and implementation guidance, to assist insurers in preparing financial statements and users in understanding the intent behind the proposed accounting principles.

We strongly support the Boards’ objective to converge insurance accounting globally, bringing greater consistency and comparability to financial reporting for insurance contracts. That said, we are concerned about the differences between the Boards’ decisions and some aspects of the proposed accounting. It is imperative that the Boards agree on a converged solution to measure insurance contracts because, as a global organization, we need a common starting point for our credit analysis. The streamlining and reduction of costs mentioned by multinational insurers to support convergence also applies to our global credit analyses. Even though a common starting point for the measurement of insurance contracts may be achieved, we acknowledge that the proposed accounting could be interpreted and applied differently. We therefore believe comparability among insurers (and within insurance groups), to the greatest extent possible, should be a key goal. Further, given the radical changes proposed, we support field-testing and redeliberation after the outcome is available, before the standard is finalized.

We provide more detailed commentary on these points below.

Measurement
We generally support the building-block approach to measuring long-duration insurance contracts, i.e., measuring insurance contracts using unbiased, probability-weighted cash flows that incorporate the time value of money, updated each reporting period. We also
favor using a simplified approach to accounting for short-duration insurance contracts. However, we support an expansion of the contracts eligible for this simplified approach.

**Updated Cash Flows**

We believe expected cash flows, updated each reporting period (subject to materiality considerations), provide useful information for analyzing long-duration insurance contracts. For certain long-duration insurance contracts, assumptions related to lapses, mortality, and interest rates currently are locked in at inception and include a provision for adverse deviation under U.S. GAAP. Therefore, current accounting does not reflect the impact of changes in those assumptions, except in cases where a premium deficiency exists (and the assumptions then are remeasured and locked in, again). The current accounting creates a cliff in recognizing a premium deficiency, i.e., once the deficiency occurs, it cannot be reversed. Consequently, the punitive nature of a premium deficiency may delay recognizing that deficiency. In contrast, we have found that accounting for long-duration life insurance contracts under Canadian GAAP is informative about exposure to changes in key assumptions, because the measurement is updated each reporting period. Our analysis of Canadian insurers has led to robust discussions about, and insight into, sensitivities of specific products to changing market conditions.

We acknowledge that uncertainty is difficult to measure and no measurement can be precise about most insurance products and related estimates of payouts and premiums. That said, we believe one way to mitigate uncertainty is to require remeasurement each reporting period, to capture changing market conditions. We prefer to have open discussions with management based on information provided in financial statements and the notes (then interpret our findings about fluctuations in measurement) rather than have an accounting construct dictate and smooth that measurement. We also believe the proposed presentation and disclosure (along with the additional disclosures proposed below) will help clarify the assumptions driving the changes reflected in the income statement (see Presentation and Disclosure, below.)

**Discount Rate**

We favor incorporating the time value of money in the measurement of insurance contracts. We believe that, when a payment is in the future, discounting is useful in valuing future obligations created by an insurance contract. (For example, we routinely adjust the accounting for property and casualty claim liabilities to include the impact of discounting when assessing capital adequacy.$^3$

We agree with the theories underpinning the decision regarding the discount rate used for nonparticipating insurance contracts (that the discount rate should reflect the characteristics of the liability, and not be company-specific: e.g., two companies with the same liability portfolio should use the same discount rate). To accomplish this, the Boards suggest the rate be equal to the risk-free rate plus an adjustment for illiquidity.

As noted in the basis for conclusions of the IASB exposure draft, concerns were raised by constituents during deliberations that the proposed discount rate results in losses at inception for long-duration life insurance contracts. If losses due arise because of the discount rate used, consistent with our approach to determining an insurer’s financial strength, we would make an analytical adjustment when we believe the accounting result yields a noneconomic depiction of the contract. We do not advocate the unadjusted pricing or asset-backed approaches proposed by some constituents. However, alternative approaches were discussed at the IASB’s recent Insurance Working Group (notably those proposed by representatives from Manulife and the National Association of Insurance Commissioners) and we support exploring these alternatives. We believe a more appropriate discount rate (showing the transaction’s economics) will allow consistent application, reflect the contracts’ duration, currency, and not be specific to a portfolio of assets. We also believe the requirement to update the discount rate each reporting period, and present or disclose changes because of the discount rate, is sufficient when analyzing whether investments support the insurance liabilities. We favor disclosures about nonparticipating insurance contracts showing the amount with and without the discount rate applied, allowing users to analyze alternative market scenarios accordingly.

**Risk Adjustment Plus A Residual Margin, Compared With A Composite Margin**

The proposals regarding the inclusion of either a risk adjustment plus a residual margin (IASB) or a single composite margin (FASB) in the measurement point to a fundamental argument when dealing with uncertain liabilities. One of the inherent limitations of financial reporting is that it only captures a snapshot at the end of a reporting period, showing current conditions. This is especially problematic when dealing with liabilities that attempt to depict something that cannot be precisely measured, such as those from insurance contracts. The question remains whether financial reporting should somehow communicate the potential for adverse development (through a risk adjustment) or not, and the comfort that management has around a particular estimate. We acknowledge that a risk adjustment introduces a conservative bias; however, it allows us to better understand the risks as seen by management. We would then apply our analytical judgment about the risks affecting an insurer’s financial strength. Further, risk-adjusting liabilities on a consistent basis would allow analysts to calculate and decompose risk-adjusted operating performance, which is highly useful in our analysis. It will also offer more transparency around the degree of conservatism included in liabilities. We have observed similar risk adjustments in companies that report under Australian and Canadian GAAP. We generally include any excessive risk adjustment as capital for capital adequacy modeling purposes. In effect, we are given the end points of a range of measurement—the expected loss and a stressed case. We then analyze the products, the company, and current market conditions to arrive at the amount we believe should be included as capital. This type of information is useful in providing analysts with further insight about an insurance company’s perspective of its risk. Over time, we believe tracking this information and movements in the risk adjustment for a particular line of business will provide a useful contrast against peers’ estimates. This type of information would allow us to glean further insights about an insurer’s financial strength under different market condition scenarios.

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4 Ibid Note 3.
We believe the residual margin reflects deferred profit, and so should be recognized over the contract period. We also believe that remeasuring the risk adjustment is appropriate, to inform investors about when circumstances have changed and how management’s view of those changes affect the liability measurement.

In assessing capital adequacy, we calculate a target level of risk-based capital at various confidence intervals to determine where a particular insurer’s capital adequacy falls within our rating spectrum. We use this information to judge capital adequacy and ultimately, the financial strength of an insurance company. Because our analysis is relative in nature, we develop our own distributions for purposes of identifying the confidence interval for the appropriate level of capital. It would be too burdensome to require publication of all of the distributions used by a particular company: Two insurers could be reporting at the same confidence interval but have different amounts for the risk adjustment because of the judgment involved in developing a loss distribution. This appears to be a short-coming of disclosures in general and not specific to this situation. However, changes in the risk adjustment over time should provide some insight into insurers with similar products but significantly different loss distributions. This insight is only possible if disclosures are made to provide information about the risk adjustment by line of business or groups of similar contracts.

We do not support limiting the choice of techniques for estimating a risk adjustment. We believe the techniques discussed in the IASB proposal are some of the more common techniques available, but we suggest not limiting which techniques can be used.

Incorporating a comprehensive risk adjustment is a relatively new concept to the industry (aside from Australia and Canada⁶), and while actuarial papers do exist on the topic, many of the discussions are theoretical and have not actually been applied in practice. We believe some latitude should be provided so that best practice methods can develop; imposing required techniques implies that they work in all instances and will stand the test of time. In addition, it may provide a false sense of comparability when in fact two insurers may report at the same confidence interval but, because they derived completely different loss distributions, the amounts reported are different. We believe that, where practicable, disclosure should be developed that will allow for a reconciliation between the techniques used by insurers.

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⁵ In our capital adequacy model, we stress each risk variable using confidence intervals and our own empirically-observed cumulative five-year defaults across ratings.

⁶ We do note that in both Australia and Canada, there is additional guidance provided by the regulators and actuarial community about calculating the risk adjustment that provides more consistency among insurers reporting under those accounting regimes.
Acquisition Costs
The Boards’ deliberations on acquisition costs were extensive, and industry participants were very vocal in their disagreement with expensing acquisition costs when incurred. The decisions by the Boards to include acquisition costs in the cash flows is consistent with the economics of the contract (i.e., that the premium charged includes at least partial recoupment of costs to acquire the contract). In our capital models, we partly recognize the economic value of acquisition expenses through our adjustments to deferred acquisition costs, or to recognize value-in-force (embedded value) in the calculation of Total Adjusted Capital, when the starting point is either U.S. GAAP or IFRS.7

However, we note that the distribution channel used in selling a contract will dictate the accounting when identifying incremental acquisition costs. If an insurer uses salaried employees to originate its insurance contracts, it seems counterintuitive that an insurer using third-party agents should receive a different accounting treatment. We would support broadening the definition of acquisition costs to include direct costs, not just incremental costs. In instances where the duties performed by a salaried employee with respect to originating insurance contracts are similar to the duties performed by a third-party agent, those direct costs should be considered acquisition costs.

Pre-Claims Liability For Short-Duration Contracts
We generally are in favor of the proposed accounting guidance for the pre-claims liability of short-duration contracts. We find the information that we currently receive from non-life insurers useful. Many of our key metrics dealing with operating performance, capitalization, and liquidity for short-duration non-life insurance contracts use premium revenue. We believe the preservation of this accounting is important to our credit analysis, and imposing a more complex accounting regime on these types of insurance contracts does not reflect the economics of these contracts. Further, the proposed accounting model appears to address issues related to long-duration contracts, which are more like financial instruments. Many short-duration, non-life insurance contracts are similar to service contracts and do not have the characteristics of financial instruments; therefore revenue is an important component in analyzing these contracts.

We are concerned that some contracts currently considered short-duration may not meet the one-year requirement for the coverage period (e.g., proportional reinsurance contracts). Accordingly, we do not support the proposed scope for the simplified approach for short-duration insurance contracts, but do support a limitation on the coverage period similar to that currently applied in practice to U.S. GAAP short-duration contracts. We believe allowing a broader interpretation of the one-year limit will not significantly affect these contracts, and preserves useful information about revenue. However, there currently are some contracts using a short-duration accounting model that would benefit from the application of the full proposed accounting model (e.g., mortgage guaranty insurance and financial guarantee insurance).

7 In instances where the starting point for determining capital adequacy is US statutory accounting, DAC is not part of the assessment because it is not admitted under statutory accounting principles.
We support requiring the simplified approach for short-duration insurance contracts. While there are issues about requiring the simplified approach for short-duration insurance contracts, we believe achieving comparability between insurers that underwrite these types of contracts (especially since the presentation is markedly different) is more important for our analytical purposes.

We do not support recording interest through the accretion of the pre-claims liability. While we understand the conceptual reasoning behind the IASB’s decision, we do not believe accreting interest on that balance provides any additional insight.

**Contract Boundaries**

We generally agree with the criteria set forth in the proposals about determining when one contract terminates and a new contract begins (the contract boundary). Understanding policyholders’ behavior is essential to understanding the types of products being offered. In our opinion, it is useful to include amounts reflecting policyholder behavior in the measurement of an insurance contract, when there is a history and solid evidence to support this behavior. For example, we include in our analysis of a life insurance company’s profitability and liquidity information related to lapses and surrender activity.

However, we do not favor the application of the full accounting model to some insurance contracts currently considered short-duration (i.e., certain health insurance contracts). A strict interpretation of the proposed accounting may lead to these contracts being considered long-duration and thus not eligible for the simplified approach. The ability to set a price that fully reflects the risk at the individual policyholder level may result in products that are priced on a community-rated basis being considered long-duration, when in fact the contracts are usually annual (or a shorter contract period), and re-underwritten at the end of the contract period. Our analysis of these contracts focuses on the current-year results and metrics such as loss ratios, expense ratios, and combined ratios. Applying the full accounting model would result in the loss of this valuable information. We believe these types of insurance contracts are annual contracts and, accordingly, should be accounted for as such.

We also believe the ability for policyholders to terminate or cease coverage after the end of the contract period; the insurance company’s ability to reprice the contract (albeit at a community-rated price); and the lack of explicit funding in the early years of the policy (life premiums are higher relative to the risk of dying when the insured is younger) are strong reasons for not reflecting policyholder behavior in these instances. At the extreme, all contracts create some type of relationship with the customer that has value. However, reflecting that value depends on whether there are contractual guarantees (guaranteed renewable) or incentives to the policyholder to continue the insurance contract (or risk becoming uninsurable). We do not believe these characteristics apply to many short-duration contracts, but may apply to health insurance (especially in jurisdictions where the pricing is dictated by law). Community-rated pricing merely reflects the business strategy of insurers: The use of the law of large numbers. Therefore, in our view, these types of contracts are short-duration and should be accounted for as such.
Presentation
We support the proposed presentation for the new measurement for long-duration contracts only if there is disclosure of information pertinent to the volume of business (as currently proposed). We believe the disaggregation of the underwriting margin, gains and losses at inception, changes in experience, and changes in estimates are similar to a source of earnings approach, which is helpful in understanding changes in the proposed measurement of an insurance contract. We also believe this presentation is much more transparent than the current presentation, and likely will allow for a more detailed dialogue with management regarding their financial results. However, we believe the traditional income statement, specifically information related to premium, provides context for our analysis regarding the volume of new business in a given period. Accordingly, we support the inclusion of this information on a disaggregated basis in disclosures to facilitate our analysis.

As noted, we support the proposed accounting for short-duration insurance contracts and support broadening the contracts that are eligible for this simplified approach. We also favor the proposed presentation for short-duration insurance contracts that includes the presentation of premiums, claims, expenses, and amortization of acquisition costs. This is consistent with how short-duration insurance contracts currently are presented, and allows us to continue using revenue-based metrics that we believe are integral to our analysis of these contracts.

Disclosure
The proposals offer a significant overhaul of the accounting for, and disclosure of, insurance contracts, which we support. Given the complex nature of insurance contracts and the greater use of accounting principles in lieu of more prescribed guidance, the importance of comprehensive disclosures in this area becomes ever more evident.

Beyond the accounting for insurance contracts, we reiterate our past appreciation of the Boards working together to develop a comprehensive disclosure framework and related principles. Disclosures are key facets in analyzing a range of information for insurers, not only related to insurance contracts but also financial instruments, including risk sensitivities, credit and counterparty concentration, asset-liability management practices, valuation and other assumptions, liquidity risks and considerations, and significant changes in these factors.

At a minimum, the disclosure framework should require that insurers consistently disclose accounting policy selections and applications; the related balances in the financial statements and account composition; the significant assumptions on which material account balances are based; the events that could cause these assumptions and balances to change; and an assessment of the probability or likelihood of such changes occurring. The information in the disclosures should also enable forward-looking analysis. The disclosure framework has great potential to introduce significant improvements to accounting standards broadly, and is a critical facet of convergence, because it can provide a consistent way to facilitate global consistency and comparability in reporting. Therefore, we suggest the Boards reconsider more broadly the disclosures
for insurance contracts and other hard-to-measure liabilities. Ideally, this can, and should, be achieved in conjunction with the development of a comprehensive disclosure framework.

We believe the proposed disclosures go a long way in addressing our needs as credit analysts for analyzing changes in the proposed measurement. However, we provide the following additional disclosures or enhancements to the proposed disclosures for consideration:

- **Disaggregate key information by type or group of similar contracts** (note that the proposed disclosures merely suggest--but do not require--such disaggregation). This will allow better understanding of risks and trends in products, and compare those risks and trends across insurers. For example, this type of disaggregation is essential in analyzing claims development tables similar to the disaggregation found under U.S. statutory accounting.

- **Provide with- and without-type disclosure.** For balances reported on a discounted basis, this should show the duration and discount rate (or the undiscounted balance) so that analysts can understand how management is applying the effects of the time value of money. In addition, it would allow them to apply judgment when market conditions change or the required accounting does not fully reflect the economics of the contract.

- **Provide information about premiums written (direct, assumed, ceded) each period.** Such disclosures would provide useful analytical information particularly relevant to business growth and sales volume, and is integral to many of our financial metrics.

- **Provide an example of the proposed disclosures in paragraph 92(e)iii of the IASB exposure draft to clarify the intent of the paragraph and ensure a consistent basis for insurers to provide loss triangles.**

- **Provide disaggregated information about expenses, mortality, and morbidity included in the pricing, and over time as those risks expire.**

**Unbundling Insurance Contracts**

We view unit-linked type contracts (separate accounts) as being different than other contracts subject to unbundling. We favor measuring unit-linked type contracts consistent with the accounting under U.S. GAAP, i.e., where the assets match the liabilities, the liability should equal the fair value of the assets.

Regarding other contracts subject to unbundling (like universal life contracts) we commented on unbundling in our comment letter response to the FASB on the exposure draft for financial instruments.\(^8\) We generally agree with unbundling the deposit element of certain insurance contracts, but believe that amortized cost, as the primary measurement of the deposit component, provides more relevant information for our analysis. Measuring the deposit component at amortized cost provides an anchor for understanding the economics of the contract (the deposit amount is that contractually due to be repaid to the counterparty). Further, carrying these contracts on the statement of financial position at fair value introduces a level of volatility and subjectivity that will not

\(^8\) Ibid Note 1.
be useful in our analysis. The deposit component is not traded, so does not have an observable market to refer to for measuring the obligation. In our opinion, using an amortized cost basis provides the best presentation for the obligation created by these contracts. Consequently, we favor unbundling if the deposit component is measured at amortized cost. However, if the deposit component is not measured at amortized cost, we favor measuring the entire contract using the proposed measurement in the insurance contracts project, and providing disclosure about the deposit component embedded within the measurement. Disclosure should be on a line-of-business basis, to show the relationship between the deposit component and the insurance component for similar contracts.

We support including specific implementation guidance and examples to assist in identifying the type of contracts that should be unbundled. In our opinion, creating a definitive line for which contracts are unbundled to achieve consistency may outweigh relying on practice to interpret those contracts that should be unbundled.

**International Consistency And Convergence**

As a global organization, Standard & Poor's supports any efforts to harmonize global accounting and to have accounting provide a more economic perspective of an insurer’s financial results. However, similar to the challenges faced by the Boards in converging on the accounting for insurance contracts, views on accounting are influenced by the accounting environment in which we operate.

Overall, we favor the pursuit of a converged, high quality standard for insurance accounting. However, our analytical needs and the urgency for this standard varies by region. For example, our analysts in Europe and Asia, working with financial statements prepared in accordance with IFRS, continue to be challenged by the inconsistency and opaqueness of financial information provided (especially by life insurers). These analysts have turned to relying on supplementary financial information (including embedded value) voluntarily provided by insurers. A common starting point for their analysis will be a welcome improvement. On the other hand, U.S. GAAP for insurers has remained relatively unchanged for over 30 years and our analysts have learned to work around the shortcomings of the accounting with respect to reflecting our view of the economics in the analysis of financial strength. Consequently, this familiarity with U.S. GAAP leads to concerns about introducing a new level of complexity into financial reporting. These concerns are especially pertinent for analysts covering property and casualty insurers and health insurers, where the proposed accounting may remove customary income statement components (such as premiums, claims, and expenses in the primary financial statements). Therefore, we reiterate our support for comprehensive field testing involving not only the insurers but also users of their financial statements.

We encourage the Boards to continue developing the insurance contract accounting standards jointly, even though they have issued different documents for comment (affecting the timing of finalizing the standards). Further, we believe convergence on the accounting for financial instruments is integral to finalizing the decisions on insurance
contract accounting. Currently, the FASB and the IASB proposals differ in both projects and do not aid convergence between IFRS and U.S. GAAP. Because we rate insurers globally, comparability in accounting is important to our peer analysis and comparisons.

We appreciate the Boards’ plan to review the comment letters and feedback jointly and urge them to work toward a comprehensive and a converged standard.

If the Boards ultimately do not agree on common accounting standards for insurance contracts, we believe it desirable to supplement each different requirement with disclosures that facilitate global and peer analytical comparisons.

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We thank you for the opportunity to provide our comments on the proposals. We would be pleased to discuss our views with any member of the Boards or your respective staff. If you have any questions or require additional information, please contact the undersigned.

Very truly yours,

Neri Bukspan
Executive Managing Director, Chief Quality Officer and Chief Accountant
Standard & Poor’s
neri_bukspan@standardandpoors.com
(212) 438-1792

Rob Jones
Managing Director, Criteria Officer, Corporate & Government Ratings
Standard & Poor’s
rob_jones@standardandpoors.com
44-20-7176-7041

Mark Trench
Director, Corporate & Government Ratings
Standard & Poor’s
mark_trench@standardandpoors.com
(212) 438-7591