December 29, 2010

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

File Reference: No. 1870-100, Discussion Paper on Preliminary Views on Insurance Contracts (Topic 944)

Dear Sir/Madam:

Exchange Indemnity Company (EIC) appreciates the opportunity to comment on the FASB’s Discussion Paper Preliminary Views on Insurance Contracts (Topic 944). EIC is a wholly owned subsidiary of Verizon Communications Inc. (Verizon) and is a captive insurance company that is consolidated and accounted for under the insurance accounting guidance of Topic 944 in the FASB’s Accounting Standards Codification. Verizon is one of the world’s leading providers of communication services, and is a registrant with the SEC.

We support the Board’s objective to issue an accounting standard which will lead to a more transparent and representative depiction of an entity’s exposure to various insurance risks. Additionally, we support the Board’s continued commitment to collaborate with the IASB to issue converged accounting guidance.

Overall, we support the FASB’s proposed guidance in the Discussion Paper on Insurance Contracts. However, we have some concerns in this proposed guidance which we perceive to be potentially detrimental to achieving the objectives noted in the preceding paragraph. Accordingly, we have summarized these issues below.

1. Scope
   In response to the Board’s question regarding benefits that an employer provides to its employees, we believe that such benefits should be excluded from the scope of the proposed standard. Employer provided insurance represents compensation expense and not an insurance contract. This is consistent with the IFRS’s proposal to exclude health insurance provided by an employer from the scope of the proposed guidance.

2. Measurement
   The FASB and IASB have significant differences in the building blocks used in their proposed measurement models for the rights and obligations of an insurance contract. The FASB’s proposal is to utilize three components – probability weighted estimates of cash flows, time value of money and a composite margin. Whereas the IASB uses the same probability weighted estimates of cash flows and the time value of money, they also propose a two-margin approach versus the composite approach: risk adjustment and a residual margin. Exchange Indemnity
Company believes that while the FASB’s model creates simplicity the inclusion of a risk adjustment within the model would allow financial statement users to understand the level of risks that are being carried on the Balance Sheets of entities.

While we support the two margin approach, we are concerned about the definition of the risk adjustment. The definition espoused in the Discussion Paper indicates that it is the maximum amount an insurer would rationally pay to be relieved of the risk that the liability cash flows could exceed those expected to be received as premiums. Issuers of insurance contracts are not generally in the business of selling these contracts after issuance. Consequently to define risk adjustment as the maximum amount that an insurer would pay to be relieved of the risk is counter intuitive and suggests the value is a current exit value. This definition is not consistent with the overall measurement of a policy’s fulfillment value. Furthermore, we would like to define the risk adjustment margin as the portion of future cash flows associated with the risk that a policy’s liabilities will exceed its premiums.

3. **Modified Approach**
The inclusion of the IASB’s “Modified Approach” for short duration contracts would be a significant improvement to the FASB’s proposed insurance contract guidance and would allow for a meaningful differentiation of the economics of these types of contracts. Property & casualty contracts have fundamental differences from life insurance contracts both in terms of economic results and in the risks taken. A modified approach would allow more consistency with US GAAP and would allow for a more seamless convergence provided the Boards agree on specifics. To require one approach of accounting for all insurance contracts, results in a lack of comparability, and results in less meaningful and relevant financial information.

Accordingly we respectfully request that the FASB consider the scope and their proposed approach to the measurement of the margin as well as including specific guidance for short term duration contracts and proactively work with the IASB and follow the principles of due process so as to jointly issue a truly converged, uniform guidance on insurance contracts.

Thank you for the opportunity to comment.

Respectfully submitted,

Maureen Letourneau, CPA  
Vice President and Assistant Controller  
Exchange Indemnity Company  
A subsidiary of Verizon Communications