File Reference No. 1325-100: Invitation to Comment, *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting*

Dear Sir/Madam:

JPMorgan Chase & Co. (JPMorgan Chase or the Firm) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (FASB or the Board) Invitation to Comment, *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting* (ITC), as the Board considers whether or not to undertake this project. The Firm’s comments are from the perspective of a corporate policyholder with multiple policies and types of coverage.

JPMorgan Chase has not provided specific responses to each of the eleven questions posed in the ITC, primarily because the Firm does not support the overall project approach, which contemplates bifurcation of group insurance policies held by corporate policyholders between an insurance component and a deposit element. The current accounting for a typical group insurance policy by a corporate policyholder is simple, well established, and well understood. Accordingly, the Firm believes that the scope of this project is unnecessarily broad, and that the bifurcation approach would introduce a tremendous level of subjectivity and complexity into an area of accounting that would significantly affect most, if not substantially all, companies that prepare U.S. GAAP financial statements. Based on the Firm’s belief that the accounting by corporate insurance policyholders is not generally viewed as a problematic area, not only is the proposed bifurcation approach unnecessary for this class of transactions, it would diminish the usefulness of financial statements and it would be both costly and difficult to implement.

In part because the scope of the project is so large, the Firm is concerned about the complex and subjective judgments that would be required to implement a bifurcation model as proposed. These judgments would likely result in inconsistent accounting treatment of identical policies by different policyholders. For example, requiring a corporate policyholder to estimate the “claims portion” of the insurance premium would require not only a detailed analysis of loss history, but information about the insurer’s profit, overhead and other market factors, which is neither publicly available nor readily determinable. These estimates, along with data that would be required to implement any of the three proposed bifurcation methods, would not only be costly and difficult to initially develop but would also require continual monitoring and revision. Considering the number of companies that would be subject to this proposed accounting approach, the significant judgments involved in bifurcating an insurance contract, and the subjectivity and general unavailability of data required to perform both the initial and
ongoing accounting, it seems likely that financial statements prepared using the bifurcation model would be much less comparable and understandable as they relate to this particular area than they are today.

Given this questionable improvement to financial reporting and the level of effort required to both implement and maintain the bifurcation approach to accounting for group insurance contracts, the Firm believes it is clear that the benefits would not outweigh the costs and that the FASB should not pursue this broad project further at this time. Before undertaking a project that would have such a significant and pervasive impact on both financial statement preparers and users, the Board should first consider more fully, and then justify, how these proposed changes would improve financial reporting.

We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. If you have any questions, please contact me at 212-270-7559 or Shannon Warren at 212-648-0906.

Very truly yours,
Joseph Sclafani