

November 16, 2007

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



File Reference 1540-100

Dear Director:

Verizon Communications appreciates the opportunity to provide our comments on the Invitation to Comment, Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, Preliminary Views on Insurance Contracts.

This Invitation to Comment is a joint project with the FASB and IASB. The Invitation to Comment proposes that an insurer should measure its insurance liabilities at their current exit value by using the following three building blocks:

- 1. Explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows.
- 2. Current market discount rates that adjust the estimated future cash flows for the time value of money.
- 3. An explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and for providing other services, if any (a service margin).

Verizon believes that this proposal is not appropriate for captive insurance companies. We understand that the goal of this proposal is to provide users of the financial statements of insurance companies with relevant information about the amount, timing, and uncertainty of future cash flows from insurance contracts. However, our captive insurance company is a wholly owned subsidiary of a Verizon Communications and is not publicly traded. Therefore, there is no benefit in requiring the captive insurance companies to apply the proposed changes because Verizon generally does not provide public financial statements for its subsidiaries. Also, like most large companies, the captive insurance company is not material to our consolidated financial statements.

"Current exit value" is the concise name for the measurement that uses the three building blocks above. Current exit value is defined as the amount the insurer would expect to pay to transfer its remaining contractual rights and obligations immediately to another party. There are several lines of business that we write where there is no commercial equivalent; therefore it will be difficult or impossible to determine the exit value of our entire portfolio. Also, this definition requires significant premiums that insurers would likely require in taking an unpredictable portfolio, like in the case of one of Verizon's captives, which has asbestos and environmental exposures. Such a transaction is very rare in the captive insurance world and the effort to determine "exit value" would be an exercise that has no value other than to meet this requirement.

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As far as the impact of the proposal on our captive insurance company, we believe it would be administratively burdensome, with no benefit to the policy holders or the public.

There is discussion the pooling of risks from a large number of similar contracts on which to base cash flow analysis. Captives do not have the spread of risk that traditional carriers do and therefore have much less data to draw on.

Vermont is the largest U.S. domicile for captive insurance companies. Vermont specifically prohibits the discounting of loss reserves. Captive insurance companies are a very large piece of the insurance market and their use is growing exponentially. Twenty nine states and numerous foreign countries have captive legislation on the books. Subjecting captives to this proposal will cause significant disruption with no value added.

In summary, it should be stressed that this proposed body of rules should not be applicable to wholly owned captive insurance companies. The proposal would require significant effort and expense with no benefit to the consolidated financial statements or their users. In our opinion it clearly violates the principal that the benefit of a FASB proposal should exceed its cost to implement.

In addition, Verizon believes that there is not a need to address the accounting by policyholders in this project. We believe that FASB Statement No. 5, *Accounting for Contingencies*, provides adequate guidance for policyholders.

Thank you for the opportunity to comment.

Best Regards,

Robert J. Flannery, CPA Vice President Exchange Indemnity Company A subsidiary of Verizon Communications