

October 22, 2010

Ms. Leslie Seidman, Accounting Chairman Financial Accounting Standards Board

Sir David Tweedie, Chairman International Accounting Standards Board

Sent by Electronic Mail

Re: IASB Exposure Draft 2010/6, *Revenue from Contracts with Customers* and FASB File Reference No. 1820-100: *Revenue from Contracts with Customers* (collectively referred to as the Exposure Draft).

Dear Sir Tweedie and Ms. Seidman:

The Group of North American Insurance Enterprises ("GNAIE")¹ is pleased to provide comments to the Exposure Draft which is intended to establish a comprehensive framework for revenue recognition. We fully support this initiative as we believe the current, fragmented, industry-focused approach is difficult to implement, understand and audit. Even though insurance contracts were excluded from the scope of the Exposure Draft, we believe the issue of revenue recognition is critical to the development of a comprehensive insurance contract standard. Accordingly, we would like to take this opportunity to share our views on revenue recognition as it relates specifically to short-duration² non-life insurance contracts.

Application of Exposure Draft to Insurance Contracts

If we were to apply the principles outlined in the Exposure Draft to our insurance premiums associated with short-duration non-life insurance contracts, in general we would:

- 1. Identify the separate performance obligations, which for short-duration non-life insurance contracts is limited to the requirement to provide insurance protection over the contract period, and allocate the revenue element across those performance obligations to determine the transaction price for each performance obligation.
- 2. Measure those performance obligations that remain unsatisfied at the amount of transaction price that is allocated to those performance obligations.
- 3. Recognize an additional liability if a performance obligation is onerous.

Jerry M. de St. Paer Executive Chair Douglas Wm. Barnert Executive Director

ONAIE is a trade organization comprised of leading insurance companies including life insurers, property and casualty insurers, and reinsurers in Bermuda, Canada and the United States. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations, and all are major participants in the US and emerging markets.

² As defined in FASB Codification 944-20-15-7



- 4. Recognize revenue as performance obligations are satisfied by providing insurance coverage. Typically, revenue would be recognized on a pro-rata basis over the coverage period.
- 5. Recognize a claims liability when a claim is incurred (including both reported and unreported claims) on a nominal basis (i.e., without discounting or explicit risk margins).

Observations Regarding Application of the Exposure Draft to Insurance Contracts

We believe application of the Exposure Draft to short-duration non-life contracts as described are consistent with the Premium Allocation Approach which will be more fully discussed in our comment letter on the IASB's Insurance Contracts Exposure Draft (Insurance ED). In contrast, the Revenue Recognition Exposure Draft is not well suited for many long-duration contracts (including life insurance contracts) and certain reinsurance contracts.

Recommendations

Short-duration, non-life contracts

As noted above, we believe the principles contained in the Revenue Recognition Exposure Draft are consistent with the Premium Allocation Approach and could be implemented for short-duration, non-life contracts.

Other insurance contracts

As will be discussed more fully in our Insurance ED comment letter, we support a different accounting model for long-duration (i.e., typically life related) insurance contracts based upon the existence of different contract attributes and a different underlying business model.

If the Board desires a further discussion of our views please contact Doug Barnert at (212) 480-0808.

Sincerely,

Dave Christensen, Chairman
Revenue Recognition Subcommittee of
GNAIE Accounting Convergence Committee

Jerry de St. Paer, Executive Chairman, GNAIE

Douglas Wm. Barnert, Executive Director, GNAIE