



The World Bank

CHARLES A. MCDONOUGH
Vice President and Controller

October 24, 2013

Technical Director,
File Reference No. 2013-290
FASB, 401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: *Proposed Accounting Standards Update: Insurance Contracts (Topic 834)*

Dear Sir / Madam,

The World Bank appreciates the opportunity to comment on the FASB's *Proposed Accounting Standards Update, Insurance Contracts (Topic 834) (the "Proposed Update")*.

We support the FASB's objective of increasing the decision usefulness of the information about an entity's insurance contracts and providing comparability regardless of the type of entity issuing the contract. Overall, we agree with the FASB's proposal to include in the scope of the *Proposed Update* insurance contracts written by noninsurance entities.

However, we have significant concerns related to how the FASB is proposing to address the accounting for the **financial guarantees** typically held by financial institutions. This includes the contracts that contingently require a guarantor to make payments to a guaranteed party if the payments guaranteed were not made by the debtor. We believe that such financial guarantees have characteristics similar to other financial assets with credit risk and, therefore, should follow the same accounting model as those instruments.

Specifically, these financial guarantees should follow the impairment accounting model of other financial assets that are exposed to similar credit risks, such as loans and loan commitments. For example, at the World Bank, we evaluate and measure the credit risk related to our financial guarantees in conjunction with the risk related to our borrowers' loans.

Proposed Accounting Standards Update: Insurance Contracts (Topic 834)

We encourage the FASB to exclude these financial guarantees from the scope of the *Proposed Update* and allow entities to continue using the current accounting model under US GAAP until such time when a new credit impairment model is adopted. We believe that this new credit impairment model should be applicable to the financial guarantee contracts. This approach would be better aligned with how financial institutions view risks and how these risks are assessed and measured for this type of contracts. This approach would be also more closely aligned with an option proposed by the IASB in its exposure draft *Insurance Contract*, which allows accounting for financial guarantees under the financial instruments guidance.

We appreciate the opportunity to provide you with our views. Please do not hesitate to contact us if you have questions or require clarification.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C. McDonough', with a long horizontal flourish extending to the right.

Charles A. McDonough
Vice President & Controller