



October 25, 2013

Russell Golden, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856

**Re: File Reference: No. 2013-290, Exposure Draft: Insurance Contracts (Topic 834)**

Johnson & Johnson (J&J) welcomes the opportunity to comment on the FASB's exposure draft **Insurance Contracts** (FASB Project 2013-290, Accounting Standards Update Topic 834). Johnson & Johnson with approximately 128,000 employees worldwide engages in the research and development, manufacture, and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world with the primary focus on products related to human health and well-being.

We are supportive of the Board's projects to develop common, high-quality guidance and provide investors with decision-useful information. While we are appreciative of the objectives of this exposure draft, we have some concerns regarding:

- Definition of an insurance contract as it relates to non-insurance entities
- Recognition
- Costs to review and assess

***Definition of an insurance contract***

We believe the definition of an insurance contract is too broadly defined; as such, certain contracts/contract terms could be unintentionally included in the scope. We recommend that the Board provide additional guidance on what is deemed an insurance contract and how to apply the guidance for non-insurance entities. We believe that insurance should be defined as guarantees against pre-existing risk between two parties, in which the loss on a transaction is a result of the external factors (e.g. not the two parties under contract). Below are scenarios specific to non-insurance entities where certain arrangements could be unintentionally scoped in.

- **Minimum Supply Arrangements**

In these arrangements, guarantees of minimum supply for sub-contract manufacturing should not qualify as insurance, as volumes below the minimum would still be borne in the costs of inventory. In this scenario there is not an expected loss, rather higher costs per unit produced. We believe that these arrangements should be accounted for under current GAAP.

- **Collaborations**

While collaborations and risk sharing arrangements could contain indemnification clauses, we believe these are viewed as performance indemnities. In these clauses, we do not believe there is a risk for loss other than loss of non-performance. Clarification should be made on what's considered indemnification of own performance. We believe that these arrangements should be accounted for under current GAAP.

- **Fixed Fee Services Contracts**

Fixed fee services (e.g. maintenance) for product that Companies place in the customer locations is common in many industries. In these situations where Companies own the product, the fee to provide the service represents frequency risk (e.g. how many times the product will need service) and not severity risk. Further clarification is needed on these arrangements, as we do not believe these types of arrangements would be considered insurance, as it is not a guarantee of loss. We believe that these types of contracts should be accounted under revenue recognition.

- **Product warranties issued by third parties**

The goal of the proposal is to develop a standard method that can be applied to all industries; however, the proposed accounting for warranties would be recognized differently depending on whether the warranty was provided by the original manufacturer or a third party. We believe warranties should be accounted under revenue recognition guidance.

### ***Recognition of possible events***

We do not agree with the proposal's basis for recognizing a possible loss event since this is inconsistent with other US GAAP guidance where a liability is recognized and measured at its fair value in the period in which it is incurred, consistent with the accounting for costs associated with exiting a business (ASC 420) and contingencies (ASC 450). Additionally, the proposal does not address how to reverse a liability recorded for the expected losses when the adverse event doesn't occur. We believe the current model of recognizing events for a non-insurance company based upon an incurred basis is still the most appropriate method.

*Costs to review and assess*

We do not believe the limited benefits derived would justify the costs to inventory and review all contracts for “insurance-like” clauses/terms. In a company our size, the costs would be significant given the number of contracts that could be in scope.

Additionally, it would be difficult for non-insurance entities to assess underwriting risk for contracts such as indemnities, letters of credit, and minimum revenue guarantees, since these contract types do not collect premiums and/or commissions.

In conclusion, we support the positive changes the Board is trying to implement; however, we feel that the scope of this project should be reassessed. Additionally, take into consideration the impacts of creating liabilities based on probability versus the current practice of “as incurred.”

Thank you very much for taking our comments into consideration.

Sincerely,

Stephen J. Cosgrove  
Vice President, Corporate Controller

Stephen D. Rivera  
Worldwide Sr. Director,  
Financial Compliance