



November 15, 2007

Technical Director – File Reference No. 1540-100 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116



Also submitted by email to: director@fasb.org

RE: File Reference No. 1540-100

The Captive Insurance Companies Association (CICA) and Vermont Captive Insurance Association (VCIA) thank you for the opportunity to comment on the Financial Accounting Standards Board (FASB) Invitation to Comment, An FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, Including the International Accounting Standards Board (IASB) Discussion Paper, Preliminary Views on Insurance Contracts.

CICA and VCIA Background:

CICA and VCIA are the two largest, oldest, and most diverse trade associations representing the United States captive insurance industry. CICA was founded in 1972 and is the only trade association for captive insurance companies that has no jurisdictional ties. VCIA was organized in 1985 and represents the interests of the captive insurance companies in the largest U.S. domicile. Between them these two trade associations represent a majority of the Fortune 500 companies with captive insurance companies. CICA and VCIA worked jointly to develop the comments outlined below. We also utilized the counsel of accounting professionals servicing the captive insurance industry.

As representatives of the greater captive insurance industry, the intent of our comments is to highlight key challenges that our industry would face should the methods expressed in the IASB Discussion Paper be implemented. These challenges differ in some respects from traditional insurance companies.

Summary Opinion:

CICA and VCIA believe that the goal of convergence, with respect to accounting guidance, is a meaningful topic for the insurance industry that should be pursued further. The benefits to larger multinational insurance carriers are clear. Additionally, as one of the largest markets worldwide it is important that FASB represent the United States perspective through the discussion of convergence with

the IASB. However, we encourage FASB to consider the interest of small and mid market insurers including the alternative risk markets.

Of specific interest to the captive insurance industry, are the existing differences between accounting principles generally accepted in the United States (GAAP) and statutory accounting principles (SAP) prescribed by the National Association of Insurance Commissioners (NAIC) prior to implementing any changes. Current GAAP to SAP differences are relatively minor compared to the differences that would exist should the methods expressed in the IASB Discussion Paper be adopted.

A goal of the Federal Liability Risk Retention Act of 1986 (LRRA) and captive legislation in multiple states was to allow for the existence of small and mid market insurers by streamlining the regulatory reporting structure which captives and Risk Retention Groups follow. This has allowed the alternative risk markets to provide coverage for risks the traditional insurance markets were unwilling to underwrite. A key element of this is allowing captives and Risk Retention Groups to file GAAP basis financial statements with regulators in an effort to reduce the financial burden of reporting under GAAP and SAP.

CICA and VCIA are concerned that the methods expressed in the IASB Discussion Paper would make current industry benchmarks used within the industry and by insurance regulators virtually obsolete. Additionally, the NAIC could elect not to implement changes made under GAAP forcing state regulators to require financial reporting on a SAP basis to ensure regulatory benchmarks are preserved. Accordingly, we recommend that FASB consult with the NAIC to determine how SAP may be affected by any changes implemented by FASB.

CICA and VCIA fear that the increased financial burden of reporting under multiple accounting bases combined with the cost of implementing new standards under GAAP may leave the alternative risk markets unable to respond to market needs.

CICA and VCIA also believe that the determination of a meaningful market value would be difficult due to the lack of meaningful benchmarks in the alternative risk markets. As such, there would be a lack of consistency in the measurement of current exit value as defined by the IASB. In our opinion the building blocks referred to in the IASB Discussion Paper should be modified to allow for the use of entity specific data and assumptions.

Additionally, CICA and VCIA feel that FASB should pursue convergence of existing U.S. GAAP as part of the discussions with the IASB. Specifically, convergence of U.S. GAAP for property, casualty, life and health insurance contracts will become more important as similarities continue to evolve in those markets. We feel that convergence of U.S. GAAP will enable FASB to have greater influence during future insurance accounting projects with the IASB.

Conclusion:

Based upon our general observations above CICA and VCIA believe that the methods expressed in the IASB Discussion Paper are complex and would introduce inconsistency in valuation at an extraordinary expense. We believe that this extraordinary expense comes, without a corresponding increase in financial statement clarity or transparency. Still, we encourage FASB to represent the United States perspective through the discussion of convergence with the IASB, and encourage FASB to consider convergence of U.S. GAAP for insurance contracts as part of or prior to discussions with the IASB. As part of a convergence project, we recommend that FASB consult the NAIC and a joint taskforce from each segment of the insurance industry.

Again, thank you for the opportunity to comment on behalf of the captive insurance industry. If you have any questions about the comments contained in this letter, please contact either of us.

Respectfully submitted,

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