From: DCase46437@aol.com [mailto:DCase46437@aol.com]
Sent: Friday, November 16, 2007 2:06 PM
To: Director - FASB
Subject: File Reference No. 1540-100

To: FASB
From: Daniel F. Case
Date: Nov. 16, 2007
Re: FASB Agenda Proposal: Accounting for Insurance Contracts...

Question 1. Yes, there is such a need. The description of the existing accounting that is given in the Agenda Proposal gives reason enough.

1.a. The aspects most needing fixing are the ones that are the most pervasive: the presence of both current values and historical-cost-related values in the same financial report and the instantaneous recognition of realized gains and losses. Those are also aspects of accounting in other areas--e.g., accounting for manufacturing concerns--that are most pervasive and most in need of fixing.

1.b. A common standard is highly desirable, if the basis is satisfactory.

Question 2. The IASB's preliminary views are worth considering, provided that the basis for measuring assets would be made consistent with the basis for measuring liabilities.

2.a. Although I have not studied the preliminary views in detail, I think they would be feasible to implement. Tests might show how expensive the procedures would be and how much variability there might be among the estimates produced by different persons for similar blocks of contracts.

2.b. There is at least one alternative that I recommend considering. It is a particular accounting system that would apply to enterprises of all types--insurers, manufacturing concerns, and others. It is described in my 2002 study, *Life-cycle Accounting Principles.* I have sent copies of that study to the FASB on two or more occasions, including earlier this month.

The accounting system that I call "life-cycle accounting principles" would provide an accounting rather than the appraisal that would seem to be provided by the IASB's "preliminary views" approach. That fact would be a benefit or not, depending on whether it is desired to have an accounting or an appraisal.

Question 3. I have no comment on this question.

Question 4. I believe that a revision of the accounting for insurance contracts should be undertaken as part of an overhaul of U.S. GAAP generally. Revising the accounting for a small part of the business spectrum might well preserve, or even exacerbate, inconsistencies between that accounting and the accountings used in other areas. The best way to arrive at an accounting system that is consistent across all areas is to address accounting in general.

Although I have not followed the FASB's projects closely, I suspect that none of them will lead directly to a fundamental overhaul of U.S. GAAP such as I believe is needed. I suggest that the FASB look at my 2002 study again, if it has already done so once, to see an example of what could be involved in a fundamental overhaul that does not use current values. The Board might not like the approach described in my study, but it might decide to initiate a new project aimed directly at exploring various possible fundamental overhauls.

For the benefit of Board members or staff who are not familiar with my work, and for any other readers of this letter, I shall comment here on my 2002 study. Although I sent the FASB another copy of the study earlier this month, I do not, of course, expect that it can be made an official part of this submission.

The "life-cycle accounting principles" system ("L-CAP") described in my study uses historical-cost-related values virtually exclusively; assumptions are locked in. The system focuses on return on investment, rather than wholly or partially on profit on sales, as would be the case if costs were matched with revenues.

In L-CAP, the return-on-investment approach applies most directly to bond and common-stock holdings, including controlling common-stock holdings, and to operations, such as manufacturing or insurance operations. For operations, return-on-investment accounting is achieved, to the extent feasible, by means of a construct called the "operational phase balance."

A salient feature of L-CAP is its handling of realized gains and losses. Since there is no particular relationship between the size of a realized gain or loss and the change, if any, in the enterprise's value occasioned by the act of realizing the gain or loss, L-CAP neutralizes the gain or loss and brings it into reported income over a period of time by means of a mathematically derived income-adjustment formula. The formula is applied to sales of operations and of bond or common-stock holdings, of whatever size, as well as, on a simplified basis, of other assets.

A preliminary version of my study, titled *Toward Life-cycle Accounting Principles*, can be viewed on the Web at www.fasb.org, under "Comment Letters." It is in comment letter #103 under the project labeled "Disclosure about Fair Value" (document issued Dec. 1999). The principles set forth in the preliminary version of my study are the same as those in the later, 2002 version. Only a few of the specifics, notably the number of reporting periods for which operational phase balances must be calculated, got changed. In addition, the 2002 version explored how L-CAP could be applied to various things such as variable interest rates, foreign-currency transactions, leases, and certain costs in the extractive industries.

Since distributing the 2002 version of my study, I have distributed a supplement containing a short addendum and listing a few errata. Among the latter is a critical typographical error that had the effect of making L-CAP's income-adjustment formula look inaccurate. The error occurred on page 4--10 of the preliminary version and page 4--8 of the 2002 version, where, in each case, "-$784.89" should have read "-$794.89."

Thank you for the opportunity to comment. I shall be glad to elaborate on my comments if you so desire.