

The Association for Accountants and Financial Professionals in Business

November 2, 2010

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Subject: File Reference No. 1810-100

Dear Sir,

The IMA's Financial Reporting Committee (FRC) appreciates the opportunity to share its views on the FASB's Discussion Paper (DP), Preliminary Views on Insurance Contracts. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts. accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. While the FRC does not presently have specific preparer expertise on our committee related to the insurance industry, we are nevertheless concerned that the Board is evaluating whether the scope of the potential standard should extend to those companies that self-insure their employee medical benefits. For reasons described further below, we recommend that the Board not expand the scope in this manner as we believe that the proposed model will not improve financial reporting for such selfinsurance arrangements and, therefore, will simply add to financial reporting and compliance costs.

Question 4 in the Invitation to Comment section of the DP asks: Should benefits that an employer provides to its employees that otherwise meet the definition of an insurance contract be within the scope of the proposed guidance? Why or why not? The DP defines an insurance contract as:

"A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder."

The DP further states that to improve comparability across entities, the above definition is not limited to insurance enterprises, which gives rise to this question.

Most of the large companies we are familiar with choose to self-insure the medical coverage they provide to their employees. In these circumstances, self-insuring and using an third party provider as a claim administrator is considered to be a more cost-effective option than contracting for such medical coverage directly. Given that this is a benefit provided to employees and is not designed with the intention of generating revenue or earning a profit, these arrangements are not comparable to insurance

Suite 1 Montvale, NJ 07645 www.imanct.org contracts underwritten and sold to third parties as a line of business. Said differently, in this context, the employee is not a customer.

It is unclear what the potential improvements would be from this standard. In the U.S., the accounting for these benefits is consistent among entities, is well understood by users and has not been the source of issues in practice. In addition, if these employer plans were included in the scope of the standard, we have questions about whether this would require pro forma estimates of an imputed insurance premium charged to the employee which would be added to salaries and then received back as premium income. We are not certain how this helps investors or aids in comparability. Clearly the application of this new model would be onerous and time-consuming, requiring accounting for and segmentation of the insurance liability that is far different than what is performed today.

For the reasons stated above, the FRC believes that benefits that an employer provides to its employees should be excluded from the scope of this guidance. If the Board is not comfortable with limiting application of the guidance to insurance entities, we would recommend that the definition of an insurance contract be revised to clarify that medical benefits provided by an employer to an employee does not meet the definition of an insurance contract for purposes of applying the proposed guidance. It is our understanding that the IASB intends to exclude such arrangements from the scope of its proposed standard, although it is not clear from our reading of the requirements in that ED how that is to be accomplished.

We appreciate the Board's consideration of these comments. We are available to discuss these matters at your convenience.

Sincerely,

Allan Cohen

Chair, Financial Reporting Committee Institute of Management Accountants