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November 21, 2010

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File Reference No. 1870-100

### **FASB Discussion Paper: Preliminary Views on Insurance Contracts**

The Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (the "Committee") has reviewed and discussed the above-referenced Discussion Paper (the "Discussion Paper"). We appreciate the opportunity to respond to the Discussion Paper. Our comments are outlined below. These comments specifically relate to the Questions for Respondents.

#### **Definition and Scope**

1. Yes, the Committee believes the proposed definitions of *insurance contract* and *insurance risk* are understandable and operational.
2. Yes, we believe financial reporting would be improved if the proposed guidance is based on the definition of an insurance contract rather than on the type of entity issuing the contract.
3. The Committee agrees with the proposed scope exclusions. We further believe the Board should consider expanding the exclusions to include any other types of entities not intended to be included under the proposed scope. In that regard, additional guidance on specific common situations (such as self insurance provided by a member of a group under common control) would be useful, particularly since the Discussion Paper proposes expanding the application of insurance accounting to additional entities beyond regulated insurance companies.
4. No, the Committee does not believe that benefits provided by an employer to its employees that otherwise meet the definition of an insurance contract should be included within the scope of the proposed guidance. In this instance, we agree with those Board members who believe such benefits are a component of compensation expense and not an insurance contract.
5. Yes, we agree with the Board's preliminary view that participating investment contracts should not be accounted for within the proposed model for insurance contracts. The Committee reached this conclusion by applying the proposed definition of an *insurance contract* to such participating investment contracts; in our view, the Board's four reasons

outlined in Paragraph 37 of the Discussion Paper are more appropriate than the three reasons provided by the IASB (summarized in Paragraph 36 of the Discussion Paper).

6. Yes, we support the proposed approach related to the unbundling of noninsurance components of an insurance contract, and we further agree that unbundling should be disallowed when not required. In our view, the improved transparency and comparability that will be provided by unbundling will represent an improvement to financial reporting.

### **Recognition and Measurement**

7. The Committee agrees with the use of the probability-weighted estimate of net cash flows to measure insurance contracts, believes that approach faithfully represents the economics of insurance contracts, and believes the proposed method is an improvement over existing U.S. GAAP.
8. While the Committee agrees that an entity's estimate of net cash flows will implicitly include a risk adjustment margin – an assessment the entity would have to perform in order to make appropriate business decisions – we do not believe an entity's financial statements should explicitly present such a margin due to the added subjectivity that presenting such a margin would introduce to financial reporting.
9. Yes, we find the objective of the risk adjustment margin understandable. However, as with our response to question 8 above, we do not believe the techniques for estimating the risk adjustment margin will add decision-useful information to users of financial statements. Adding such margins to the presentation of an entity's financial statements will, in our view, unnecessarily add complexity and subjectivity to an important component of financial reporting for insurance entities.
10. The Committee agrees that risk adjustment margins would theoretically be comparable for entities that are exposed to similar risks, but we believe significant variations would arise upon implementation due to the inputs used by different entities in calculating such a margin.
11. Yes, the Committee agrees with the description of cash flows that should be included in the measurement of an insurance contract and finds the proposed guidance operational.
12. While we agree that the carrying amount of all insurance contracts should be discounted if the effect is material, we have difficulty determining a method under which the application of discount rates can be accomplished consistently and without bias. Furthermore, the Committee believes many entities will have difficulty locating appropriate financial instruments with the correct risk profile for use in their discounting.
13. The Committee agrees that acquisition costs should be included as one of the cash flows relating to the contract, provided that only incremental, policy-specific, recoverable costs are deferred as acquisition costs.
14. See our response to question 13.
15. The Committee agrees with the use of either the composite margin approach proposed by the Board or the two-margin approach favored by the IASB, and believes that either would faithfully represent the economics of insurance contracts and improve current U.S. GAAP. However, as discussed in our responses to other questions herein, we do not believe the added subjectivity introduced under the two-margin approach is appropriate. Thus, the Committee favors the Board's composite margin proposal.

16. Yes, we think the composite margin should be recognized in earnings in subsequent periods using the ratio described in Paragraph 83 of the Discussion Paper.
17. The Committee agrees with the Board's view that interest should not be accreted on the composite margin. The primary basis for this conclusion is the Board's observation that accreting interest would inappropriately result in additional revenue recognized to offset the required interest expense.
18. For short-duration insurance contracts, the Committee believes an alternative approach (for example, the modified approach) is appropriate. For such short-duration contracts, we find the current presentation models reasonable. We do not agree with the proposed guidance from the IASB that would accrete interest on the carrying amount of the insurance contract for the reasons given in our response to question 17 above.
19. If an alternative approach is required for some insurance contracts, we believe incremental acquisition costs should continue to be carried as an asset to be amortized over the contract term, and do not believe the accretion of interest is appropriate.
20. The Committee believes both the proposed building-block and modified approaches provide relevant and decision-useful information. The primary advantage of the building-block approach is to match revenues and the related expenses, while we view the modified approach as favorable for short-duration contracts due to its relative simplicity.
21. The Committee believes the contract term is the most relevant measure in determining whether or not to allow or require the application of a modified approach.
22. As noted by both the Board and the IASB, we do not believe the modified approach would provide decision-useful information for long-duration insurance contracts.
23. The Committee has no response to this question regarding the recent U.S. healthcare reform as it relates to the Discussion Paper. When a final exposure draft is released and more information regarding its applicability to recent U.S. healthcare reform is available, we will consider any related questions at that time.
24. The Committee has no response to this question regarding other changes the Board should consider to improve and simplify U.S. GAAP related to insurance contracts.
25. In considering the incremental costs of adopting the alternatives described in the Discussion Paper, it is necessary to know how the Board plans to implement the proposed changes to existing U.S. GAAP. If retrospective application is required, entities would likely incur substantial up-front actuarial costs and systems conversion costs in order to recalculate their financial statements under the revised guidance. Regardless of the transition method, we believe entities will experience somewhat increased ongoing costs as actuarial and other costs are increased to reflect the additional level of work required at contract inception to comply with the proposed changes.

## **Reinsurance**

26. Yes, the Committee agrees with the exclusion in the proposed guidance that would make any changes to existing U.S. GAAP not applicable to insurance contracts held directly by non-insurers. An entity that is not engaging in reinsurance but, rather, is simply insuring a risk should not be required to account for such a contract as if it were reinsurance.

27. Yes, the Committee believes there should be symmetry between the recognition and measurement of reinsurance contracts and the underlying contract ceded.

**Presentation and Disclosure**

28. The Committee agrees with the margin approach which would, in our view, shift the focus of insurers' financial statements to the ultimate liability assumed as opposed to the current presentation which tends to highlight assets and total premiums. We believe users of insurers' financial statements would be better able to understand the performance of such an entity if the liability were the focus.
29. The Committee prefers the proposed margin presentation to the premium presentation.
30. Yes, we believe both short- and long-duration contracts should be presented using a similar (margin) manner even if such contracts are measured under different approaches.
31. Yes, the Committee believes the proposed disclosures contained within the IASB's Exposure Draft would be helpful and provide users of financial statements with relevant, decision-useful information in analyzing the financial position and results of operations of entities that issue insurance contracts.

**Additional Question for Respondents**

32. The Committee believes option "d" (pursuing an approach based on the Board's preliminary views in the Discussion Paper with some changes) is the most appropriate course of action to improve U.S. GAAP. Please refer to our previous responses for the comments we have related to the Board's preliminary views.

Again, the Committee appreciates this opportunity to share its views and comments on the Discussion Paper. Members of the Committee are available to discuss any questions you may have regarding this communication.

Sincerely,

Steven Wm. Bierbrunner, CPA  
Chair, FICPA Accounting Principles and Auditing Standards Committee

Committee Members Coordinating this Response:  
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