The Association of
Accountants and
Financial Professionals
in Business

October 4, 2013

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

File Reference No. 2013-290, Proposed Accounting Standards Update, *Insurance Contracts (Topic 834)*

Dear Ms. Cosper:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to provide its views to the Financial Accounting Standards Board (FASB or Board) on proposed Accounting Standards Update, *Insurance Contracts (Topic 834)* (Proposed ASU or Proposal).

The IMA is a global association representing more than 65,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The FRC 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. Information the FRC can be found at www.imanet.org.

IMA's members include representatives from a number of large, medium, and small insurance and reinsurance companies. We understand many of these companies will be providing comprehensive comment letters to the FASB on the entire Proposal. Therefore, we are limiting our response to Question 1, *Scope*, to reflect the concerns of our non-insurance-company members regarding the applicability of the Proposal to certain contracts written by non-insurance companies.

Although we do not comment on specific aspects of the proposed insurance model in this letter, we would like to make an overall observation. We understand the FASB undertook this project to achieve a converged standard with IFRS, rather than in response to specific issues with the US insurance model. The IASB, on the other hand, undertook this project because there is not a comprehensive insurance model in IFRS. Despite the Boards' best efforts to do so, the FASB and IASB proposals are not converged and we understand there are questions as to whether either model is an improvement over existing US GAAP. While we understand the need for the IASB to complete its project in a manner it considers appropriate, we suggest the FASB consider waiting to complete its Proposal to determine investor reaction to the IASB model before requiring changes to well understood US insurance GAAP. We believe there is much that could be learned from implementation of the IASB requirements that could inform and refine changes to the US insurance model, including its scope.

Concerns with the Scope of the Proposed ASU

We understand the Proposed ASU applies to all contracts (unless the contract is subject to a scope exception) that meet the definition of insurance, regardless of the type of entity (e.g., industrial, financial, retail) issuing the contract. Paragraph 834-10-15-5 of the Proposal contains an extensive list of contracts that are excluded from the scope of the Proposal and we agree with these scope exclusions. We understand the Board excluded specified types of contracts from the scope of the Proposal because other guidance provides better information to the users of financial statements or because changing the existing accounting for those contracts would impose costs and disruption with insufficient benefit.

We believe the scope guidelines in the Proposed ASU that set forth the types of contracts that are included and excluded from the definition of an insurance contact are subjective, unclear, and lack an understandable conceptual basis. We believe this lack of clarity will lead to inconsistent application of the rules by preparers and confusion for financial statement users. For example, for the FASB's July 30, 2013 webcast, *Insurance Contracts (Topic 834)—It's Not Just for Insurance Companies!*, the Board required 30 slides to explain the Proposal's applicability to non-insurance companies. The Proposal requires 19 pages (pages 71 to 89) of interpretive guidance and examples to explain the scope of the Proposal. The Basis for Conclusions devotes three paragraphs (BC41 through BC43) to explaining the characteristics of product warranties that are excluded from the scope and paragraphs BC46 through BC51 and paragraphs BC53 through BC62 explain the rationale for excluding certain fixed-fee service contracts and guarantees, respectively. We believe this is *prima facie* evidence the scope provisions included in the Proposal are too complex for both financial statement preparers and users and are not operational.

We also believe the provision in paragraph 834-10-55-41 of the Proposal to "exclude guarantees issued by an entity that are both unusual or nonrecurring and unrelated to the type of risk that is the subject of other guarantees issued by the entity" lacks conceptual merit, would not be implemented consistently and, therefore, is not operational. Because many guarantees involve elements of credit risk, we believe the accounting for guarantees would be better addressed in the Board's financial instruments project and Accounting Standards Codification (ASC) Topic 460, *Guarantees,* (ASC 460).

Concerns with the Operational Complexity and Cost of Complying with the Proposed ASU by Non-insurance Companies

Despite the extensive list of scope exclusions, we believe the inclusive scope provisions of the Proposed ASU are too broad because (i) they will affect a wide range of non-insurance companies that were not the primary reason the FASB added the project to its agenda, (ii) the effect on non-insurance companies will not be cost beneficial because many of these companies do not have the specialized skills (i.e., actuaries), experience, and systems to perform the complex judgments, and calculations required by the Proposal, (iii) the transactions may, in many cases, be incidental to non-insurance companies' core operations and, therefore, will not be relevant to the users of their financial statements, and (iv) we are not aware of financial statement users' concerns with these transactions for non-insurance companies.

Existing or Proposed Standards that Better Address the Accounting for Certain Transactions for Non-insurance Companies

We believe existing standards better address the accounting for non-insurance companies for certain transactions within the Proposal's scope. For example, we understand contracts that may be within the scope of the Proposal include those in the following list, for which we have suggested other existing or proposed GAAP that better address the accounting for such transactions for non-insurance companies.

- *Product warranties issued by third parties*. In paragraph BC18 of the Proposal the Board states that the "Board's approach to standard setting generally has been to consider the accounting for a specific transaction or contractual arrangement and then to develop an accounting method that can be applied to all industries. That accomplishes an overall objective to account for contracts that contain identical or similar economic characteristics in a similar manner." We point out that the Board's approach to accounting for product warranties would diverge from this approach by requiring different companies or industries to account for the same transaction or contractual arrangement differently depending on whether the warranty was provided by the original manufacturer or a third party.

  We are not aware of instances in which the comparatively simple and well-understood accounting for product warranties has created pervasive industry issues for financial statement preparers or users. Further, certain of these arrangements are addressed in the FASB's project on revenue recognition. Understanding insurance accounting requires specialized knowledge and experience by financial statement preparers and users. We believe imposing complex insurance-company accounting on product warranty liabilities would not increase the transparency or decision usefulness of the financial information for users of non-insurance-company financial statements and would substantially increase the costs for preparers. We suggest product warranties be excluded from the scope of the Proposal for both original manufacturers and third-party obligors.

- *Certain fixed-fee service contracts*. Similar to our views on accounting for product warranties, we believe the subtle contractual differences that drive insurance versus incurred-loss accounting for transactions such as roadside assistance plans (e.g., provides services for short or long distances) or certain maintenance and repair service plans under the Proposal will not be operational for preparers and will not be appreciated by non-insurance-company financial statement users. Therefore, the Proposal will not enhance user transparency and will impose resource and systems costs on non-insurance-company preparers that are not justified by the benefits for users. Perhaps these arrangements are better addressed in the FASB's revenue recognition project.

Financial guarantees, liquidity guarantees, guarantees on securitized assets, mortgage guarantees, standby letters of credit, performance guarantees, whole-loan guarantees. We understand these types of guarantees may be within the scope of the Proposal. Because all of these types of guarantees involve elements of credit risk, we believe any perceived need for enhancements to existing accounting requirements (e.g., ASC 460, ASC 450, *Contingencies*) would be better addressed in the Board's financial instruments project. Further, all residual value guarantees by lessees should be addressed in current lease accounting and in the FASB's project on the topic.

We point out that when financial institutions have exposure to credit risk from both guarantees and loans, having two models for measuring credit risk will be costly for financial statement preparers and confusing for financial statement users. We understand that certain insurance companies that have traditional insurance and mortgage guarantee businesses prefer their credit guarantees to be subject to the same measurement model as their traditional insurance business, also citing cost and usefulness. We believe it may be most appropriate and useful to allow for an accounting policy election, consistent with the IASB's proposal.

We also would like to point out that paragraph 834-10-55-42a of the Proposal states that "A bank issues a guarantee of its subsidiary's debt. That guarantee will most likely be within the scope of this Topic if that bank issues guarantees of the debt of third parties." ASC 460 and proposed paragraph 834-10-15-5k2 exclude from their scope guarantees of an entity's own performance. We do not believe requiring the application of the Proposal's complex insurance-accounting provisions to what we view as a fundamental assertion in consolidated financial statements (i.e., that an entity is liable for settling its own liabilities) will provide any useful information to financial statement users.

- *Minimum revenue guarantees, performance guarantees, indemnities.* These types of guarantees are generally accounted for under ASC 450, *Contingencies*, and ASC 460 and we are not aware of pervasive accounting and reporting issues or requests for changes to the accounting and reporting associated with these transactions. We do not believe the costs of applying the complex provisions of the Proposal by financial statement preparers will justify the benefits to be obtained by financial statement users.

Summary

In the Board's effort to develop a single accounting standard for contracts with any element of what might be considered by some to be insurance risk, we believe the Board has developed a proposal that will not enhance the decision usefulness for users of financial statements of non-insurance companies, will impose significant costs on financial statement preparers for transactions that may not be significant to non-insurance-company financial statements, and for which there are no pervasive non-insurance-company practice problems. We suggest the Board reconsider and refine the scope of the Proposal or extend the specified scope exclusions to limit the Proposal's applicability to contracts for which the Proposal was initially undertaken; that is, to contracts currently within the scope of ASC 944, *Financial Services — Insurance.*

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We would be pleased to discuss these comments with you at your convenience.

Sincerely,

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Institute of Management Accountants
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