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Financial Accounting Standards Board
Attn: Technical Director
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116
Via E-mail: director@fasb.org

Re: File Reference No. EITF090G, Proposed Accounting Standards Update – Topic 944 – Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

The American Insurance Association (“AIA”) appreciates the opportunity to provide comments on the above referenced proposed update. AIA is a national trade association representing insurance companies writing all lines of property and casualty insurance. We are submitting comments because we believe the proposed guidance would impose significant compliance burden upon the property and casualty insurance industry, without providing meaningful benefit to users of the financial statements of property and casualty insurers.

The stated purpose of the proposed guidance is to address diversity in practice in the accounting for the costs of acquiring an insurance contract, particularly costs relating to advertising. This guidance addresses the advertising issue by moving advertising costs from the acquisition cost guidance to *Topic 720, Other Expenses* and *Subtopic 340-20, Other Assets and Deferred Costs – Capitalized Advertising Costs*. However, the proposed guidance goes much further than addressing diversity in accounting for advertising costs, and creates an unnecessarily complex approach that AIA believes might not reduce diversity in practice in accounting for other types of acquisition costs.

As property/casualty insurers, our members generally write short duration contracts, for which the acquisition costs for any particular contract would normally be charged to expense within a 12 month period. Consequently, any diversity in practice in accounting for acquisition costs is limited to a relatively short period of time.

Additionally, the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) have tentatively concluded, as part of their joint project on insurance contracts, that there should be no recognition of deferred acquisition costs (“DAC”) in a new insurance accounting standard. AIA believes that the objectives of the proposed guidance including, eliminating diversity in practice for DAC, should be addressed as part of the FASB/IASB joint project. As the new insurance contracts standard is expected to be finalized at the end of 2010 or early 2011, AIA believes there is no justification for changing the DAC

guidance at this time. We recommend that property and casualty insurers be permitted to continue using existing DAC guidance until new insurance contract guidance becomes effective.

Practicality of Applying Guidance

The proposed update would require insurers to separately identify costs that were incurred while seeking business that is acquired from costs of seeking business that ultimately is not acquired. A sophisticated system would need to be developed in order to source employee compensation and fringe benefits costs relating to underwriting, policy issuance and processing, medical and inspection, and contract selling, and to allocate those costs between acquired contracts and non-acquired contracts. That process is further complicated by the fact that these broad functional areas may also include costs identified in ASC 944-720-55-1, such as soliciting, research, and training, which would be required to be expensed as incurred.

There is no business reason to track these costs separately because companies incur both costs related to acquired business and costs related to non-acquired business for the purpose of generating new and renewal contracts. The cost of designing and implementing an infrastructure for tracking and separately identifying acquisition costs may be prohibitive. It may also be difficult to have the new system in place for reporting periods beginning after December 15, 2010. Moreover, the additional investment in infrastructure will become irrelevant if the preliminary conclusion in a new insurance contract standard eventually becomes final and therefore requires the expensing of all acquisition costs.

If guidance is to be issued – and AIA does not believe guidance is necessary at this time – then the guidance should be limited to advertising costs. For other costs, AIA recommends that property/casualty insurers be allowed, on the basis of practicality, to continue to capitalize in the manner they currently do until a new insurance contract standard is applicable. This approach would make the guidance more operational, given the short life cycle for acquisition costs.

Ambiguities in the Proposed Update

Definition of Acquisition Costs and Incremental Direct Cost of Contract Acquisition. The distinction between the revised definition of “Acquisition Costs” and the new term “Incremental Direct Cost of Contract Acquisition” is not clear. The amendments to the “Acquisition Costs” definition appear to restrict the definition to make it functionally equivalent to the definition for “Incremental Direct Cost of Contract Acquisition”. Use of both terms invites confusion. More importantly, adding more detailed definitions appears to make the guidance more prescriptive, rather than principles-based. AIA recommends that the proposed update use only the amended definition of “acquisition costs” and that the recognition and guidance sections reference acquisition costs, rather than “incremental direct costs of Contract Acquisition.”

Examples of Incremental Direct Costs. The implementation guidance at ASC 944-30-55-1 provides examples of incremental direct costs that include: (1) agent/broker commission or bonus and (2) medical and inspection fee, both resulting of successful contract acquisitions. These examples should be just that – examples. Because judgment should always be an integral part of principles-based guidance, we recommend additional language to precede the examples, such as, “the following list includes examples, but is not inclusive of all possible expenses.”

Summary

AIA does not believe the proposed guidance will lead to less diversity in practice, which is the stated goal of the update. The guidance imposes burdensome data collection and allocation

requirements that seem excessive for short duration contracts. Infrastructure to calculate deferred acquisition costs, as proposed, will be expensive to design and implement, especially in the short time interval proposed. Costs to do that far outweigh the benefits since such infrastructure will quickly become obsolete based on the preliminary decision to eliminate DAC made by the FASB and IASB in their comprehensive insurance contracts project.

If the Board proceeds with the issuance of this guidance, we recommend that the scope be limited to the proposed treatment of advertising costs. Property and casualty insurers should be allowed to continue to capitalize their acquisition costs as prescribed in Topic 944.

Please feel free to contact the under-signed with any questions you may have.

Sincerely,

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