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**Subject:** AIG Comments on Staff Draft of Accounting Standards Update Addressing Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts  
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AIG has read the August 19, 2010 Staff Draft of the proposed Accounting Standards Update on *Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (Proposed ASU). In response to the Staff's outreach activity on the Proposed ASU, AIG has the following comments for the Emerging Issues Task Force to consider at its September 16, 2010 meeting:

### **Capitalization**

In our August 13, 2010 comment letter we suggested the consensus for exposure be amended to *permit* (but not require) companies to capitalize only direct, incremental, third-party costs that can be easily identified with successful insurance contract acquisitions or renewals (e.g., premium taxes and commissions). AIG believes many insurance companies would elect such an option to simplify transition to the consensus, which would enhance the consistency of financial reporting and reduce the cost of implementing the consensus.

To implement that suggestion, we recommend the following edit be made to paragraph 944-30-25-1A of the Staff Draft (insertion is underlined and deletion is struck out):

Unless provided for in paragraph 944-10-65-1(d), an insurance entity ~~shall~~  
may capitalize only the following as acquisition costs:

### **Costs incurred with independent third parties**

We are concerned that direct and incremental acquisition costs incurred in connection with successful contract acquisitions can only be deferred if such costs are incurred with independent third parties. Paragraph 944-30-55-1I of the Staff Draft reads, in part:

Commission-based compensation arrangements between an insurer and its employees may be similar to arrangements an insurer may have with independent third parties, such as sales agents or brokers. However, when acquisition activities are performed by the insurer's employees, the insurer must allocate compensation costs applicable to the activities listed in the definition of acquisition costs on the basis of the portion of time spent by employees. An allocation of the employees' total compensation between contract acquisition and other activities is made so that only those costs associated with those acquisition activities listed under the definition of that term are deferred for successful contracts, even if commissions are 100 percent of such compensation and are based solely on successfully acquired contract transactions.

Insurance companies typically pay sales commissions to agents for successfully acquiring insurance contracts. The activities conducted by such agents in obtaining insurance contracts are generally the same, regardless of whether the agent is an independent contractor or a captive employee agent. Consequently, the Staff Draft would result in inconsistent treatment of incremental and direct costs incurred by agents performing the same acquisition services based on the legal classification of the agent. In addition to creating inconsistent accounting treatment for the same type of acquisition costs, the proposed guidance would create diversity where there currently is uniformity regarding a relatively straightforward component (sales commissions) of acquisition costs.

We understand the Staff desires to converge the accounting requirements for insurance

contract acquisition costs with those for lending activities and loan purchases. However, we believe the Staff Draft does not adequately consider the significant differences between (i) lending activities and loan purchases and (ii) an insurance company's acquisition of insurance contracts. Loans are typically initiated by a borrower seeking financing. Consequently, lenders rely on sales agents to a lesser degree than insurance companies. Insurance, especially life insurance, typically is sold by an agent prospecting and identifying potential insureds and selling protection products the insured might not previously have considered. Thus, sales commissions for insurance products are usually a relatively large percentage of the policy premium because the prospecting efforts are labor intensive and only successful efforts are rewarded with compensation.

We urge the Staff to reconsider the accounting proposed in the Staff Draft and permit the deferral of sales commissions paid for successful contract acquisitions, regardless of the legal or independent/captive status of the agent, because this classification has no bearing on the underlying acquisition activity.