ILLINOIS **CPA** SOCIETY

October 23, 2013

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

File Reference No. 2013-290

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on *FASB Proposed Accounting Standards Update—Insurance Contracts (Topic 834).* The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We believe that there are several items that require further consideration by the Board before a final standard can be issued.

First, we are not convinced that the benefits of the wholesale revision to insurance accounting proposed by the exposure draft would exceed the costs. We supported the Board's efforts in working with the IASB during the preliminary views/discussion paper stages of the project to arrive at a comprehensive, converged standard that would address recognition, measurement, presentation and disclosure. However, we hoped that the resulting standard would be much closer to existing US GAAP than the result. We believe that the IASB and the FASB are in different positions – i.e. there is currently no comprehensive insurance accounting guidance under IFRS as there is under U.S. GAAP. We believe that while current U.S. GAAP has room for improvement, it is not broken. We fear that the proposals in their current state would only increase complexity and lead to additional costs for both preparers and users, without sufficient identifiable benefits. The Board may be better served in addressing issues within U.S. GAAP, instead of replacing U.S. GAAP with a completely new model.

Second, we question if the Board has identified the proper scope for this project. While we support the Board's efforts in reducing the amount of industry specific guidance, we believe some industries have unique characteristics that require special accounting considerations and industry guidance. The Board's proposed definition of an insurance contract has broadened the applicability of the insurance accounting standards to include entities whose business is not underwriting insurance risk, but utilizing products to manage risk. Our Committee believes the scope of the project is too broad and should not include noninsurance entities. Specifically, those noninsurance entities engaging in auction rate securities, liquidity facilities, guarantees on securitized assets, and minimum revenue guarantees (to name a few) are not insurance products, but only tools in helping manage/mitigate risk for other parties, without insurance underwriting risk. Additionally, some Committee members are specifically concerned about the proposal's impact on investment companies and its impact on their underlying investments, such as catastrophe bonds, collateralized reinsurance investments, and industry loss warranty contracts. We believe the Board needs to put a heavier weight on insurance entities versus noninsurance entities since insurance is a heavily regulated industry with nuances unique to it.

We also have concerns with the number of items scoped out. Having such a complex scope raises the question as to whether the Board has arrived at the relevant fundamental principles. As proposed, the scope of the standard would have far reaching consequences to noninsurance entities who are not in the business of underwriting traditional insurance.

Finally, regarding the proposed accounting for items within the scope of the proposal, we have concerns with the subjectivity surrounding discounting cash flows that are not fixed or readily determinable. We do not see this proposal as an improvement. We believe it is more prudent to carry undiscounted liabilities on the balance sheet instead of following the proposed ‘premium allocation approach’, as discounting liablities could have a potential impact on revenue recognition by front loading income into the coverage period (rather than the coverage and settlement period under current U.S. GAAP) and to reduce income in future periods as interest expense is accrued on the discounted liability.

In addition to the subjectivity surrounding the discounting of cash flows, we also have concerns with the proposed changes to the risk transfer model. Current U.S. GAAP focuses on the reasonable possibility of a significant loss, quantified based on a comparison of claim payments in relation to premiums received. The proposals would appear to reduce the threshold that the risk transfer test is met, even if a loss is unlikely or the expected present value of contingent cash flows is small compared to the present value of all contractual cash flows.

We encourage the Board to consider not issuing a final standard along the lines of the proposals. We believe constituents would better be served by an approach where current U.S. GAAP is modified, rather than replaced with a new standard that is more complex with uncertain benefits.

We appreciate the opportunity to offer our comments.

Sincerely,

Scott G. Lehman, CPA
Chair, Accounting Principles Committee

Amanda M. Rzepka, CPA
Vice-chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2013-2014

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:	
Large: (national & regional)	
Ryan Brady, CPA	Grant Thornton LLP
Todd Briggs, CPA	McGladrey LLP
Brian Chmiel, CPA	Crowe Horwath LLP
Frank Dery, CPA	PricewaterhouseCoopers LLP
John Hepp, CPA	Grant Thornton LLP
David Jamiolkowski, CPA	Baker Tilly Virchow Krause, LLP
Scott Lehman, CPA (Chair)	Crowe Horwath LLP
Elizabeth Prossnitz, CPA	BDO USA LLP
Robert Sledge, CPA	KPMG LLP
Medium: (more than 40 professionals)	
Timothy Bellazzini, CPA	Sikich LLP
Christopher Cameron, CPA	Kutchins Robbins & Diamond Ltd
Michael Kidd, CPA	Mowery & Schoenfeld LLC
Gary Mills, CPA	Frost, Ruttenberg & Rothblatt PC
Tad Render, CPA	Miller Cooper & Company Ltd
Steven Roiland, CPA	FGMK, LLC
Jeffery Watson, CPA	Miller Cooper & Company Ltd
Small: (less than 40 professionals)	
Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA	Cray Kaiser Ltd CPAs
Industry:	
Rose Cammarata, CPA	CME Group Inc.
Farah Hollenbeck, CPA	Abbvie
Joshua Lance, CPA	N Pritzker Capital Management LLC
Marianne Lorenz, CPA	AGL Resources Inc.
Michael Maffei, CPA	GATX Corporation
Anthony Peters, CPA	McDonald's Corporation
Amanda Rzepka, CPA (Vice Chair)	Jet Support Services, Inc.
Richard Tarapchak, CPA	Navistar International Corporation
Educators:	
Martin Coe, CPA	Western Illinois University
James Fuehrmeyer, Jr., CPA	University of Notre Dame
Staff Representative:	
Gayle Floresca, CPA	Illinois CPA Society