

**From:** Gregg Nelson [mailto:gln@us.ibm.com]  
**Sent:** Thursday, October 24, 2013 6:08 PM  
**To:** Director - FASB  
**Subject:** File Reference No. 2013-290, Proposed Accounting Standards Update, "Insurance Contracts"  
**Importance:** High

October 24, 2013

Mr. Russell Golden, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

(Sent via e-mail to [director@fasb.org](mailto:director@fasb.org) )

Re: File Reference No. 2013-290, Proposed Accounting Standards Update, "*Insurance Contracts*"

Dear Mr. Golden:

The International Business Machines Corporation ("IBM" or "the company") appreciates the opportunity to comment on the Proposed Accounting Standards Update, "*Insurance Contracts*" (the "proposed ASU" or "exposure draft").

Our primary concern regarding the exposure draft is that the scope is too broad and includes contracts that are more appropriately addressed within the scope of other accounting standards, such as revenue recognition. For example, we question why certain fixed-fee services contracts would be in scope of the proposed ASU, especially when such contracts are usually part of an entity's ongoing major or central operations. The substance of such contracts is to provide services to a customer, not to provide the customer with insurance.

In addition, we don't understand why certain guarantees of own performance are excluded from the scope such as standard warranties of an entity's own products, but certain fixed fee services contracts which are also related to own performance would be in scope. When an entity is providing services, like in the towing service examples included in paragraph 55-30 of the proposed ASU, it is in essence guaranteeing its own performance to the customer by providing the service contracted for (regardless of the distance of the towing service). We don't see why this is necessarily different from a standard warranty contract which is out of scope.

We feel that the fixed fee services contracts scope exception criteria should be amended by removing the first and third criteria so that contracts that are expected to be fulfilled through services rather than cash payments either to a customer receiving the service or a third party (e.g. doctors, hospitals, airlines) would be excluded from scope of the insurance ASU.

In general, we feel that the dividing line between what is in scope of revenue versus insurance

needs to be more clearly defined. If the Board continues with the scope as proposed in the exposure draft, we believe that a decision tree would need to be added to the Codification in both topics 606 and 834 in order to determine whether a contract falls under the scope of the revenue recognition standard or insurance.

We would also like clarification regarding the scope exception for divestiture related guarantees. As part of IBM's strategy, the company rebalances its portfolio by acquiring and divesting various businesses. It is not clear whether we would be exempt from classifying guarantees that arise as a result of divestitures as insurance under the "unusual and infrequent" scope exception. We believe that for the scope exception to be practicable, it will need more robust clarification. We would prefer a blanket scope exception for all such guarantees since the primary purpose of these transactions is not to grant insurance.

In addition, the IFRS exposure draft on insurance specifically excludes financial guarantees unless the issuer has previously asserted explicitly that it regards these contracts as insurance contracts. We would encourage the Board to look into adopting this scope exception under US GAAP, not only to converge with IFRS, but also to alleviate some of the difficulties that including financial guarantees in the model has caused.

We encourage the FASB staff to perform more outreach related to the scope of this exposure draft and we would be willing to meet with the staff on this matter.

Lastly, while we generally support the concept of accounting for similar transactions in a similar way regardless of the entity issuing those contracts, we are unsure that the benefits of requiring non-insurance entities to apply insurance accounting outweigh the costs. Entities may have to hire outside experts to account for a small number of transactions for which the accounting today is not perceived as incorrect. We are also unaware of any preparer or user requests or needs that indicate an accounting change is necessary. Therefore, we also encourage the Board to perform more outreach on the costs and benefits of implementing this proposed ASU.

Thank you for the opportunity to comment on the Exposure Draft. If you have any questions, please contact me at (914) 766-2008.

Sincerely,

Gregg L. Nelson  
VP, Acctg. Policy & Financial Reporting  
IBM Corporation  
3D-10, Bldg 2  
294 Route 100, Somers, NY 10589  
914-766-2008 Office  
914-438-4855 Cell  
[gln@us.ibm.com](mailto:gln@us.ibm.com)