



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans



June 20, 2008

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Mr. Herz:

The insurance trade associations listed above would like to thank you and your fellow board members for inviting us and our member companies to participate in the May 6, 2008 FASB Insurance Industry Forum. We believe a robust discussion of differing perspectives provides standard-setters with a full range of viewpoints to consider. We hope the exchange of viewpoints was beneficial to the FASB as it moves toward a decision on participating in the insurance contracts project.

We continue to believe very strongly that it is vitally important that the FASB join with the IASB to develop a high quality, understandable, enforceable global insurance accounting

standard. Participation by the FASB will ensure that the voice and collective wisdom of the North American insurance industry are effectively communicated to the IASB. The FASB/IASB can count on our support and input in developing an insurance accounting standard that is representative of and can be practically implemented by the global insurance industry.

We would like to summarize a few key positions that we believe the FASB should consider:

- An accounting standard for insurance contracts must reflect reality -- we cannot stress that point enough. Insurance companies are subject to licensure and a wide variety of legal requirements for origination, reserving, asset management, etc, all of which affect the economics of the contract and the resulting liabilities. In the United States, insurance companies generally cannot transfer their contract obligations to someone else. Yet, the exit value concept of the IASB's Discussion Paper would value insurance liabilities based upon transfer transactions that do not generally occur in the U.S. insurance market. FASB's participation in the insurance contracts project would help keep the project focused on developing a reality-based accounting standard that is appropriate for the largest market in the world.
- The United States is the single largest insurance market in the world. The business model for operating in the U.S. insurance industry must necessarily reflect the unique nuances of the U.S. legal system, which contains overlapping and sometimes conflicting local, state and federal jurisdictions. The result of this complexity is a body of jurisprudence that can and does produce dramatically different and unexpected results – environmental and asbestos risks immediately come to mind as examples. A global insurance accounting standard that is not appropriate for the U.S. market and legal system is not a high quality, robust global standard. As the accounting standard-setter for the U.S., the FASB possesses a deeper appreciation of the U.S. legal system than the IASB. Hence, FASB's participation would bring needed guidance to the insurance contracts project in developing a sufficiently flexible insurance standard that can accommodate all legal systems, while providing a level playing field for international competition.
- As we indicated during the Forum, we believe the decisions reached in the insurance contracts project have the potential for impacting decisions on the projects dealing with changes to the conceptual framework, revenue recognition and financial statement presentation. Decisions reached in those projects can profoundly affect decisions to be reached in an accounting standard for insurance contracts. Understanding how insurance products function and the related reporting issues will assist the Board as it works through these projects.
- To be valid and useful, any new accounting standard for insurance contracts must be field-tested to ensure that the standard produces verifiable results that are meaningful to users. It is also important that the new standard can be reasonably and efficiently implemented. The FASB's experience with field testing would provide assistance and balance to the IASB in that endeavor.
- Concern has been raised that FASB's entering the project at this stage would delay the project's completion. However, the possibility of a delay should be mitigated by the following factors:

- The IASB has recently revised its timeline for the deliberation of the Project, thus providing the FASB with a prime opportunity to join the project. Until the recent discussion of the IASB Technical Plan, it was understood the IASB would begin making technical decisions in development of an exposure draft before year-end. The new schedule has the IASB receiving an education session in September, conducting a meeting of the Insurance Working Group in November and no consideration of the Project on the meeting calendar as of yet.
- Insurance is a “modified joint project” and the FASB members have been receiving regular updates as to its progress. It is our understanding that the “modified” structure was intended to allow the less active board to join the project while not affecting its timeline.
- The IASB has in its possession a large amount of background material, including the Discussion Paper and the comments it received. The IASB staff and industry have both completed reviews of those comments as well. Review of this material should suffice to bring the FASB up to speed as to the state of deliberations. What remains is a review of any decisions taken during the time period between the IASB’s receipt of comments and FASB’s joining the project. We are not aware that any such decisions have been taken or specifically scheduled.
- The comment gathering process would become more efficient because the FASB would serve as the appropriate focal point for gathering thoughts and opinions from US industry leaders. The FASB's involvement will draw focus and provide more visibility within the U.S. than if the IASB were to conduct this project alone.
- Even if minor delays arise, we continue to believe that developing a complete and globally appropriate standard is more important than simply doing something quickly. As noted earlier, we are very concerned with aspects of the IASB’s discussion paper that do not reflect the U.S. business environment. A global insurance accounting standard that is not appropriate for the U.S. market is not a high quality, robust global standard. The FASB is in a better position than the IASB to ensure that the final insurance accounting standard is operable (based on adequate testing) and appropriate in the U.S.

We recognize that FASB members may not be experts on how all insurance products function, but that concern exists for the products and services provided by all other industries as well. The IASB has the same issue. Given the diverse economy of the U.S and the world, it is impossible for either board to be an expert in all industries. However, the FASB’s lack of specific industry expertise is easily overcome through open consultation with users, auditors and preparers who are experts in insurance products in the U.S. market. The U.S. markets require representation to the IASB of the differing and unique aspects of our industry. If users are expected to understand the reporting results of the new standard, it only stands to reason that standard-setters should seek guidance from the insurance industry to develop a fair understanding of the products and services involved.

Our respective organizations can access a wealth of expertise on all aspects of insurance. In the past, our industry has been actively involved in providing resources to U.S. standard-

setters in the development of much of the extensive U.S. insurance accounting guidance that exists today. Please be assured that significant expertise will be at the FASB's disposal if it decides to go forward with the insurance contracts project. A primary reason we have remained engaged with this discussion is our commitment to this project and the intent to provide the FASB with whatever assistance it may need or request with this project.

Again, thank you for the providing a forum to discuss issues related to the insurance industry. We strongly encourage you to join the insurance contracts project. Please feel free to call on any of us with your questions or concerns.

Sincerely,

/s/ Michael Monahan
Director, Accounting Policy
American Council of Life Insurers

/s/ Phillip L. Carson
Assistant General Counsel
American Insurance Association

/s/ Randi Reichel
Consultant
America's Health Insurance Plans

/s/ Carl A. Labus
Manager
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/s/ Douglas Wm. Barnert
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/s/ William Boyd
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/s/ James Olsen
Director, Insurance Accounting and Investment
Property Casualty Insurers Association of America

/s/ Joseph B. Sieverling
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