



August 6, 2010

Technical Director, File Reference No. EITF090G
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

The Group of North American Insurance Enterprises (GNAIE) is concerned about recent developments regarding Proposed Accounting Standards Update—Insurance Topic 944: *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, a consensus of the FASB Emerging Issues Task Force (EITF 09-G). We expressed concerns about EITF 09-G in our comment letter of February 12, 2010. We do not rehash those concerns here. The focus of this letter is to raise concern regarding a significant issue that developed as a result of the changes made to this project during the July 29th EITF meeting discussion.

At its July 29th meeting, the EITF revised the definition of capitalizable contract acquisition costs with the result that incremental direct costs would only be capitalizable if the amounts were paid to third parties. Commissions paid to employee agents, which are incremental direct costs of acquiring new business, would only be capitalizable in proportion to the time spent by all employees on successfully acquired contracts. This change is substantive and will significantly reduce the amount of deferrable direct commissions paid for policies sold for companies with employee agents only.

We believe the revision made at the July 29th meeting has several important consequences. First, while the original EITF 09-G definition of capitalizable acquisition costs, prior to the revision on July 29th, was largely convergent with the FASB (and IASB) tentative decisions to date in the joint insurance contracts project, the revision creates a significant difference in the models being proposed. The result for insurers forced to implement a revised EITF definition would be that implementation efforts required to adopt the revised EITF would not be incremental toward adoption of a new insurance contracts model. Rather, companies would make expensive system updates to capture information that would no longer be needed once the insurance contracts project is completed.

More importantly, the end result of applying the revised approach to capitalizing acquisition costs related to commission payments would create divergent effects depending on the composition of an insurer's sales force for reasons that are not justified. There is no difference in substance between a commission paid to an agent who is an employee and a commission paid to an agent who is not an employee. Consistent accounting treatment should be applicable for the same economic transaction; otherwise, comparability among similar transactions in different entities is lost. Sale transactions involving non-employee agents will appear more profitable as reflected in the financial statements at the time of sale than transactions involving employee agents, when the economics of the transactions, including the variability of acquisition expenses and the presence of incremental direct costs, are identical. To the extent that a cost is incurred solely as a result of successfully acquiring a contract, a success rate is already automatically incorporated into that cost. Applying a success rate to incremental costs of any kind

Jerry M. de St. Paer
Executive Chair

Douglas Wm. Barnert
Executive Director

Group of North American Insurance Enterprises
40 Exchange Place, Suite 1707
New York, NY 10005
UNITED STATES

++1-212-480-0808
info@гнаie.net
www.гнаie.net



(whether paid to employees or third parties) effectively double-counts the impact of the failure rate, and thus does not faithfully represent the economics of the transaction.

While the need for a consistent treatment of employee agents and third party distributors is a very important concern for the insurance industry, it is perhaps less impactful to banks. Many insurance companies distribute their products primarily or exclusively through captive agents who are often legally required to be classified as employees. The employee agents' commission compensation is based on actual sales; identical to the treatment of commissions paid to external distributors. Different accounting treatment would provide a competitive advantage to insurers who utilize third party distributors. The EITF is moving in the direction of full application of the banking model to insurers without full consideration and exposure of the impact of the revised definition on insurers' business models.

Finally, we are concerned about the due process, or lack thereof, with which this revision to the EITF 09-G definition of capitalizable acquisition costs was adopted. The issue of whether to apply a success rate to any incremental costs was never exposed, and the exposure draft of EITF 09-G did not suggest that this was a possibility. Therefore, affected parties have not had an appropriate opportunity to respond to this important issue, which will have significant impact on insurance company financial statements and business models.

This change would greatly increase implementation costs, perhaps doubling them for many companies, as well as drive changes in insurers' distribution practices that would have economic consequences, while making financial statements less comparable and understandable.

Therefore, we respectfully request that if FASB chooses to ratify EITF 09-G, the board revert to the definition of capitalizable acquisition costs that was originally exposed. We are available to discuss these views with you as well as any other aspects of the insurance contracts accounting model as we continue our mutual goal of developing a high-quality, robust, international accounting standard for insurance contracts.

Please direct all communications to Douglas Wm. Barnert, GNAIE Executive Director, at doug.barnert@gnaie.net.

Thank you, in advance, for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry M. de St. Paer". The signature is written in a cursive, flowing style.

Mr. Jerry M. de St. Paer
Executive Chairman, GNAIE
and
Financial Accounting Standards Advisory Council Member

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