GWSCPA

GREATER WASHINGTON SOCIETY OF CPAs

March 29, 2016

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standards (SFFAS), *Insurance Programs*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views, and the hard work and dedication by the Board Members and Staff on their contributions to improving federal financial reporting.

Our responses to the ED questions are included below.

Q1. The definition for an insurance program (par. 9) identifies the fundamental nature of these programs. The substance and not the name of a program will determine if it is an insurance program and therefore subject to these standards.

Do you agree or disagree with the definition of an insurance program? Please provide the rationale for your answer.

A1. The FISC agrees with the definition of an insurance program, as outlined in paragraph 9.

Q2. Additional new terms were introduced (par. 10-25) in order to provide definitions needed to consistently report on insurance programs.

A. Do you agree or disagree with the proposed definition of each term? Please provide the rationale for your answer.

B. Do you agree or disagree that the additional terms will assist insurance programs in producing consistent reporting? Please provide the rationale for your answer.

A2. The FISC agrees with the definitions provided in paragraphs 10-25.

Q3. Insurance Programs are to be classified in one of the three categories defined in par.15, 22, and 23: Exchange Transaction Insurance Programs other Than Life Insurance, Life Insurance Programs, and Nonexchange Transaction Insurance Programs.

Do you agree or disagree with these categories? Please provide the rationale for your answer.

A3. The FISC agrees with the three categories included within paragraphs 15, 22, and 23.

Q4. New standards were introduced (par. 26-43) for exchange transaction insurance programs other than life insurance. These programs will be required to recognize a liability for losses on remaining coverage. The liability for losses on remaining coverage has been separated from the liability for unpaid claims to address the uncertain nature of losses on contracts open beyond the end of the reporting period. Insurance programs must first use the expected cash flow model to estimate these future losses. However, there are various methods to estimate cash flows and probabilities. To the extent that a method explicitly or implicitly incorporates the characteristics of expected cash flow, then its use is consistent with this Statement. One member expressed concern in that expected cash flow may be too limiting to allow other methods currently in use to continue to be used for estimating future cash flow in. (See Basis for Conclusion par. A17)

A. Do you agree or disagree that the recognition guidance for exchange transaction insurance programs other than life insurance (par. 27-39) is clear and appropriate? Please provide the rationale for your answer.

B. Would the expected cash flow approach (par. 35-37) prevent use of any methods you believe should be used? Please provide the rationale for your answer.

C. Would the measurement standard (par. 35-37) allow the method currently used by your entity to estimate future losses continue to be used? Please provide the rationale for your answer.

D. Do you agree or disagree with the disclosures for the exchange transaction insurance programs other than life insurance (par. 40-43)? Please provide the rationale for your answer.

A4. The FISC generally agrees with the recognition guidance for exchange transaction insurance programs other than life insurance. However, we offer the following observations for consideration by the Board:

A. We suggest that the Board replace the phases “not practical and appropriate” and “single most-likely amount” in paragraph 37. These phrases are not sufficiently precise enough to provide for consistent implementation by reporting entities. The first phrase (“not practical and appropriate”) does not provide for the scenarios that the Board envisions when a reporting entity would not be required to adopt the expected cash flows or other comparable method. The second phase (“single most-likely amount”) could be subject to different interpretations depending upon the objective of the stakeholder, preparer, or financial statement user. If the

Board choses to include these phrases in the final Standard, we suggest that the Board add definitions of these phrases to the "Definitions" section in order to clarify the Board's intent.

B. We support the inclusion of paragraph 36, which allows for reporting entities to choose from the expected cash flows method or from a variety of other methods that approximate the expected cash flows method. We agree with the views of the Board member, as discussed in paragraph A17, that the expected cash flows method may be too limited in some circumstances. The latitude provided by the Board in paragraph 36 adequately addresses this concern.

C. We suggest that the Board limit its discussion of subsequent events in paragraph 32 to only refer to the requirements in SFFAS 39, such as replacing the current paragraph with "Subsequent events should be recognized in accordance with SFFAS 39." The current ED includes an extended discussion that may give rise to circumstances in which this language could be interpreted as an expansion of the requirements in SFFAS 39. (This same comment applies to the Board's discussion of subsequent events in paragraphs 49 and 64 in the ED.)

Q5. New standards were introduced (par. 44-53) for nonexchange transaction insurance programs.

A. Do you agree or disagree that the recognition guidance (par. 45-49) for nonexchange transaction insurance programs is clear and appropriate? Please provide the rationale for your answer.

B. Do you agree or disagree with the disclosures for the nonexchange transaction insurance programs (par. 50-53)? Please provide the rationale for your answer.

A5. The FISC agrees with the new standards introduced in paragraphs 44-53 for non-exchange transaction insurance programs.

Q6. New standards were introduced (par. 54-68) for life insurance programs.

A. Do you agree or disagree that the recognition guidance (par. 55-64) for life insurance programs is clear and appropriate? Please provide the rationale for your answer.

B. Do you agree or disagree with the disclosures for the life insurance programs (par. 65-68)? Please provide the rationale for your answer.

A6. The FISC agrees with the new standards introduced in paragraphs 54-68 for life insurance programs.

Q7. New disclosures were introduced (par. 69) for the consolidated financial report of the U.S. Government.

Do you agree or disagree with the disclosures applicable to the consolidated financial report of the U.S. Government (par.69)? Please provide the rationale for your answer.

A7. The FISC agrees with the new disclosures introduced in paragraph 69 for the consolidated financial report of the U.S. Government.

Q8. The Board proposes that the requirements of this Statement are effective for reporting periods beginning after September 30, 2017.

Do you agree or disagree? Please provide the rationale for your answer.

A8. The FISC agrees with the proposed effective date of this ED.

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This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

Andrew C. Lewis
FISC Chair