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Washington, DC 20548

March 30, 2016

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G. Street, NW, Suite 6814  
Mailstop 6H19  
Washington, DC 20548

**Federal Accounting Standards Advisory Board: *Insurance Programs Exposure Draft***

Dear Ms. Payne,

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Federal Accounting Standards Advisory Board's exposure draft (ED) entitled *Insurance Programs*. The ED defines terms relating to insurance programs and provides guidance for how and when insurance programs should recognize revenue, expenses, and liabilities. The ED also provides guidance for estimating losses for remaining coverage when contracts provide coverage after the financial reporting date. In addition, the ED updates existing disclosure guidance to encourage concise, meaningful, and transparent information.

Overall, we support the guidance proposed in the ED. However, we are concerned with the requirement in the ED to first use the expected cash flow method to estimate the amounts that are to be paid to settle further claims during the remaining open insurance contract period. Our concerns focus on paragraphs 35, 36, and 37 as noted below:

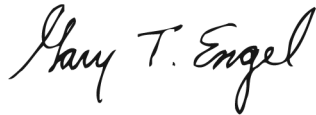
- Paragraph 35 of the ED states that an entity should estimate the amounts to be paid to settle future claims during the remaining open contract period using expected cash flow based on all available information existing at the balance sheet date, including experience with previous trends, and, as appropriate, the views of independent experts.
- Paragraph 36 states that 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.
- Paragraph 37 states that if using an expected cash flow method is not practical and appropriate, then an entity may estimate a single most-likely amount to be paid to settle future claims during the remaining open contract period.

We believe that the requirement to first use the expected cash flow method is an approach that is too limited and may inappropriately exclude cash flows calculated under other methods that may better reflect estimated cash flows. For example, it is possible that the most-likely amount will provide a better estimate of the liability. There are a range of alternatives for estimating cash flows and it is our view that the entity should be able to use any method that provides a reasonable estimate of cash flows, based on all available information existing at the balance

sheet date, including experience with previous trends, and, as appropriate, the views of independent experts. In addition, the requirement to use a specific method for estimating cash flows is more confining than measurement methods in FASAB standards with regard to other liabilities and that there was not a clear reason expressed in the ED for the different treatment. We believe that the flexibility allowed with regard to measurement options within FASAB standards for measuring liabilities should be consistent. For these reasons, we believe that the ED should be modified to provide flexibility so that the user can use reasonable methods to estimate cash flows.

We support this work and appreciate the opportunity to provide comments, which are included in the enclosure. Please contact Robert Dacey, Chief Accountant at (202) 512-7439 or [dacey@gao.gov](mailto:dacey@gao.gov) or me at (202) 512-2600 or [engelg@gao.gov](mailto:engelg@gao.gov) if you have questions on GAO's perspectives.

Sincerely,

A handwritten signature in black ink that reads "Gary T. Engel". The signature is written in a cursive, flowing style.

Gary T. Engel  
Managing Director  
Financial Management and Assurance  
Enclosure