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March 28, 2016

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

**RE: Proposed Statement of Federal Financial Accounting Standards, *Insurance Programs***

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Statement of Federal Financial Accounting Standards, *Insurance Programs* – the exposure draft (ED). We support the Board’s efforts related to insurance programs. As we understand the Board’s current 3-year plan, this ED is Phase I of the broader Risk Assumed Project, and we anticipate future exposure drafts related to this broader project. We believe the preparer community can best address the recognition and measurement guidance in the ED. We believe there are certain aspects of the ED that are unclear, which will make implementation problematic, and in some instances will impact the auditability. Therefore, we provide the following comments for the Board’s consideration.

**1. Definitions**

- a. We recommend that the Board avoid defining terms with the term itself. For example, paragraph 9 defines “insurance program” as “a general term used to refer to an insurance or non-loan guarantee program...” Also, paragraph 15 uses the term “exchange transactions” when defining “exchange transaction insurance programs other than life insurance”.
- b. Paragraph 25 states “Recoveries – ‘recoveries’ include...”. These are examples of recoveries rather than a definition. We recommend that the Board define recoveries in addition to providing examples.

**2. Exchange Transaction Insurance Programs Other Than Life Insurance**

- a. Paragraph 30(b) states “[the estimated settlement amount includes] related estimated claim adjustment expenses.” We believe it is unclear whether the Board intends for a reporting entity to accrue at the end of 20X1 for federal employees’ payroll and related costs incurred in future periods (20X2 and beyond) that relate to unpaid insurance claims.
- b. We recommend that the Board reconsider whether inclusion of paragraph 32 is necessary given that it is paraphrasing, without specific reference to insurance programs, SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*. Also, inclusion of paragraph 32 could imply that the Board is providing new or alternative guidance on subsequent events for insurance programs.

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- c. We recommend that the Board remove the last sentence of paragraph 35, which states “Subsequent events should not be recognized but may be disclosed in accordance with SFFAS 39.” This sentence contradicts paragraph 32 and SFFAS 39, paragraphs 11 and 12, which require recognition of certain subsequent events.
- d. We recommend the Board remove paragraph 36, which states “To the extent that a method explicitly or implicitly incorporates the characteristics of expected cash flow, then its use is consistent with this Statement.” We believe the Board’s use of such broad language may present an audit challenge.
- e. Paragraph 37 states “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.” Use of “not practical and appropriate” presents a presentation and audit challenge. We are unsure what other criteria management and the auditor would use to determine whether an expected cash flow method was not appropriate. We recommend that the Board remove paragraph 37.
- f. Footnote 12 states “Portfolios are groupings of insurance programs or contracts that have some meaningful relationship. The groupings may be based on contract period/duration, shared risks, management, customers, geographic regions, or other factors.” We recommend that the Board define portfolios within the “Definitions” section of the Standard rather than a footnote. We further recommend that once defined, the Board consistently use the term within the Standard. For example, paragraphs 30(c)i and 34 include the phrase “group(s) of contracts” rather than insurance portfolio. If the Board meant the phrase “group of contracts” to mean something other than a portfolio, the Board should clarify this.
- g. We believe paragraphs 40 and 41 are intended to provide guidance for selecting portfolios and/or contracts to be subject to the disclosures in paragraph 42. However, the linkage to paragraph 42 is not clear. We recommend that the Board modify paragraph 42 to link to the guidance in paragraphs 40 and 41 as follows (new content underscored):

A narrative discussion should be provided to include the following information for each material insurance portfolio, and/or in aggregate for all remaining insurance portfolios, and/or individual insurance contracts:
- h. We recommend that the Board consider whether a reporting entity should disclose certain of the information required in paragraphs 42(a) through (h) in a table or chart rather than in a narrative discussion. In doing so, we recommend that the Board modify paragraph 42 and insert “narrative information relating to...” and/or “balances of...” at the beginning of items (a) through (h).
- i. Paragraph 42(b) requires a narrative discussion of “The gross cost of..., [and] appropriations used...” We recommend that the Board clarify whether the gross cost and appropriations used balances include federal employees’ payroll and related expenses incurred while federal employees investigated, settled, and/or adjusted claims during the reporting period.

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- j. We recommend that the Board modify paragraph 42(c) to provide additional guidance about what is meant by the term “investing activities.” It is a broad term and without more specific guidance, the Board will not achieve consistency in reporting.
- k. Paragraph 42(f) states “...trend information including the amounts of liability for losses on remaining coverage during the reporting period(s).” We recommend that the Board modify paragraph 42(f) to provide additional guidance about what is meant by the term “trend information,” or to remove “trend information”. It is a broad term and without more specific guidance, the Board will not achieve consistency in reporting. In addition, there is an audit challenge if a reporting entity discloses information that lacks measurability. We also recommend that the Board specify the number of years for which the required information should be disclosed.
- l. We recommend that the Board consider whether the information for changes in the liability balance for unpaid insurance claims described in paragraph 43 should include the ‘related estimated claim adjustment expenses’ from paragraph 30(b).

### **3. Nonexchange Transaction Insurance Programs**

- a. Paragraph 47 – Refer to earlier comment number 2a on paragraph 30.
- b. Paragraph 49 – Refer to earlier comment number 2b on paragraph 32.
- c. Paragraphs 50 and 51 – Refer to earlier comment number 2f on paragraphs 40 and 41.
- d. Paragraphs 52(a) through (c) – Refer to earlier comments number 2g through 2i on paragraphs 42(a) through (c).
- e. Paragraph 53 – Refer to earlier comment number 2k on paragraph 43.

### **4. Life Insurance Programs**

- a. Paragraph 61 states “The liability is estimated using appropriate financial and/or actuarial methods...” We do not believe that a reporting entity could estimate a liability for future life insurance policy benefits without using an actuarial method as the estimate would need to consider such information as mortality and morbidity rates. We recommend that the Board modify paragraph 61 as follows (deleted content struck-through):

The liability is estimated using appropriate financial and~~or~~ actuarial methods...

- b. Paragraph 61 states “(See also SFFAS 33)”. We recommend that the Board clarify the elements of SFFAS 33 to which a reporting entity should refer, as well as clarify whether such referral is required or for informational purposes.
- c. Paragraph 64 – Refer to earlier comment number 2b on paragraph 32.
- d. Paragraphs 65 and 66 – Refer to earlier comment number 2f on paragraphs 40 and 41.
- e. Paragraphs 67(a), (c), (d), and (e) – Refer to earlier comments number 2g through 2j on paragraphs 42(a) through (c) and (f).
- f. Paragraph 68 – Refer to earlier comment number 2k on paragraph 43.

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## 5. Editorial Matters

- a. Paragraph 12 states “Cash Surrender Value – the “cash surrender value” is the sum of money an insurance company will return...” We recommend that the Board replace the term “insurance company” with language applicable to the Federal government, such as “a Federal agency that administers an insurance program.”
- b. We recommend that the Board revise “estimated” within paragraph 16 to “estimates”.
- c. We recommend that the Board adjust paragraph 30(a)ii(1) as follows to be consistent with the definition of adverse event from paragraph 11: (new content underscored; deleted content struck-through):

A single-occurring event or ~~A~~ series of events causing...

- d. Paragraph 39 states “Adjustments to the liability for losses on remaining coverage should be recognized as *a component of* [emphasis added] claims expense.” Paragraph 31 states “Adjustments to the liability for losses on remaining coverage should be recognized as claims expense.” We recommend that the Board consider whether paragraph 39 should match paragraph 31.
- e. We recommend that the Board replace “future costs” with “future claims” in paragraph 42(f).

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or [aenelson@kpmg.com](mailto:aenelson@kpmg.com).

Sincerely,

**KPMG LLP**