

From: Daniel King
Sent: Tuesday, March 29, 2016 6:41 AM
To: Gilliam, Robin
Subject: FASAB Exposure Draft on Insurance Programs

Good morning,

Please see that attached responses provided from the Maritime Administration in relation to the FASAB Exposure Draft on Insurance Programs. Thank you for the opportunity to review and respond and please let me know if you have any questions.

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Office of the Secretary
Department of Transportation

Exposure Draft: Questions for Respondents due March 29, 2016

Insurance Programs

Name: Office of Financial Operations

Organization: Maritime Administration, Department of Transportation

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.**

MARAD believes the definition should be expanded to encompass all the key features and characteristics of an insurance program or arrangement, namely, (a) one party providing protection against another party's financial loss in a variety of (specified) situations, (b) the principle of parties sharing losses, (c) the insured party agreeing to make regular payments (called premiums) to the party that provides insurance against said loss and (d) the issuance of a contract commonly referred to as the insurance policy. As it is the definition uses the word "insurance" to define the term. It is way too brief and/or high level.

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.**

MARAD agrees with the definitions of the terms because they bear a direct relationship to or association with the nature of insurance programs and provide clarity in the practice and execution of insurance programs.

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.

MARAD agrees. The additional terms provide concise, meaningful and useful information that are easy to understand and as such should contribute to consistent reporting by federal insurance programs.

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- 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.

MARAD agrees with the categorization of insurance programs into three (3) distinct groups. This approach provides a clear differentiation of one program from the other and clarity on revenue, loss and liability recognition procedures/requirements for each type of insurance program.

- 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.**

MARAD agrees. The guidance on revenue, loss and liability recognition is clear and appropriate and is not any different from the general accounting guidance on the recognition of income, expense, gain, loss and liability.

- 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. MARAD does not have enough information to answer this question.**
- 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. This question does not apply to MARAD because it does not currently have an insurance program that requires the estimation of future losses.**

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- 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.

MARAD agrees. The disclosure requirements include consideration for materiality (both qualitative and quantitative) and the presentation of information that is concise, meaningful and transparent.

- 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.

MARAD agrees. The guidance on the recognition of revenue for nonexchange transaction insurance programs follows the general guidance on the recognition of resources that result from the receipt of appropriations (SFFAS 7). Recognition of liability for unpaid insurance claims follows general liability recognition principles in accounting and financial reporting.

- 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.

- c. **MARAD agrees. The disclosure requirements include consideration for materiality (both qualitative and quantitative) and the presentation of information that is concise, meaningful and transparent.**

- 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.

MARAD agrees that premiums should be recognized as revenue when due from life insurance policyholders. However, there is no discussion of adjustments that may be necessary for revenue that is recognized but not collected either in whole or in part. Also, there is no discussion of policy cancellations and the accounting for any related revenue that has already been recognized.

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

MARAD agrees. The disclosure requirements include consideration for materiality (both qualitative and quantitative) and the presentation of information that is concise, meaningful and transparent.

- 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.

MARAD agrees. The disclosures provide a summary of the important components of the insurance program(s). The Board should consider including the cost/expense of the insurance programs as part of the disclosures. Cost/expense of the program(s) will provide important summary information to stakeholders, especially taxpayers and the general public.

- 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.

MARAD agrees. This gives federal program agencies enough time to prepare for implementation of the requirements.