

September 8, 2006



Technical Director
Financial Accounting Standards Board
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California
Society

File Reference No. 1325-100

Certified
Public
Accountants

Re: Bifurcation of Insurance and Reinsurance
Contracts for Financial Reporting

The Accounting Principles & Auditing Standards Committee of the California Society of Certified Public Accountants (the "Committee") submits the following comments on the proposed statement.

The AP&AS Committee is the senior technical committee of our state society. It has 43 members; 67 percent from local or regional firms, 23 percent sole practitioners in public practice, 5 percent from industry and 5 percent from academia.

The Committee discussed each of the issues for respondents and the outcomes of the Committee's discussions are noted below.

As more fully explained below, the Committee does not believe that the Board should add this matter to its projects at this time. Accordingly, we are commenting on only a few of the issues set forth in your May 26, 2006 Invitation to Comment.

Issue #3

Although, in principle, we believe there is merit in bifurcation, we are concerned about practical application, including cost v. benefit issues, for the reasons set forth below.

- For many entities, insurance is not a material expense. Consequently, any bifurcation is not likely to have a material effect on the financial statement for these entities.
- Most small to mid-sized entities do not have the internal technical proficiency needed to make assessments/measurements required to bifurcate insurance contracts. For such entities, cost is the principal driver for the insurance procurement decision.
- Access to/availability of insurance contract information needed to make bifurcation analysis is not readily available to most private companies and nonprofit organizations.
- Any deposit arising from bifurcation represents a contingent asset, which, inherently, introduces difficult measurement/recoverability issues.

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Issue #11

We recommend collaborating on the existing IASB project on insurance accounting and not adding the project to the FASB agenda for the following reasons.

- o To assure convergence
- o To preserve FASB resources
- o To access international industry expertise

Our view is that this potential project is driven principally by intent to respond to recent, well-publicized financial reporting abuses by large publicly-owned entities. We believe collaboration with IASB is sufficient response. Further, in light of inherent measurement difficulties, we believe that IASB guidance should conform to the following guidelines.

- o Bifurcation information should be provided by industry/insurance carriers only for large contracts exceeding some monetary threshold
- o Insured entities should recognize bifurcation only for large contracts which are clearly material to the entity (entities exposed to higher risks normally transferred/mitigated by insurance arrangements)

Lastly, we believe this project potentially conflicts with Board initiative to reduce complexity in financial reporting.

The Committee would be pleased to discuss its comments further with the Board or its staff.

Very truly yours,

Robert R. Coté, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants