

Home Office • 100 Erie Insurance Place • Erie, Pennsylvania 16530 • 814.870.2000 Toll free 1.800.458.0811 • Fax 814.870.3126 • www.erieinsurance.com

December 22, 2009

Mr. Russell Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

RE: Consolidation (Topic 810), Amendments to Statement 167 for Certain Investment Funds (File Reference No. 1750-100)

Dear Mr. Golden:

Erie Indemnity Company ("Erie Indemnity") appreciates the opportunity to comment on the proposed Amendment to Statement 167 for Certain Investment Funds.

In this comment letter, we are requesting that the Financial Accounting Standards Board (FASB) modestly expand the definition of the entities eligible for a deferral of the effective date of Statement 167 to include an attorney-in-fact acting as an agent for a reciprocal insurer. We are also requesting that applicability of the requirements of Statement 167 to a reciprocal insurer where the attorney-in-fact is acting as an agent be considered as part of the FASB's and International Accounting Standards Board (IASB)'s joint consolidated financial statement project.

An attorney-in-fact acting as an agent for a reciprocal insurer, similar to an asset manager, functions as an "agent" for its "principal" (the subscribers of the reciprocal insurer) and has the following characteristics:

- a) A fiduciary duty to act in the best interests of the subscribers / policyholders of the reciprocal insurer;
- b) No obligation to absorb losses of the reciprocal insurer;
- c) No rights to receive the benefits of the reciprocal insurer, other than through its market-based fee arrangement; and
- d) No obligation to provide financial support to the reciprocal insurer.

In the Proposed Accounting Standards Update (ASU), a major reason for the deferral articulated by the FASB was that IASB standards could lead to a different result than U.S. generally accepted accounting principles (GAAP) for asset managers of investment funds, as compared to other variable interest entities for which the result would likely not be different. Here, the FASB's rationale for deferral applies equally to an attorney-in-fact acting as an agent for a reciprocal insurer.

The inconsistencies between the guidance on principal and agent relationships in Topic 810 and one of the proposals being considered by the IASB in Exposure Draft (ED) 10, may result in different consolidation conclusions for U.S. GAAP as compared to IFRS. We believe an attorney-in-fact acting as an agent for a reciprocal insurer, as described above, may qualify as an agent under certain views discussed by the IASB during its recent redeliberations of ED 10. If those views are ultimately adopted as a result of the joint deliberations of the IASB and the FASB, attorney-in-fact relationships may not be required to consolidate under IFRS or U.S. GAAP. Therefore, we believe that an attorney-in-fact acting as an agent for a reciprocal insurer should be included in the deferral.

The consolidation required under Statement 167 also results in financial statements that are less meaningful and potentially misleading to financial statement users for an attorney-in-fact acting as an agent for a reciprocal insurer. The market-based fee arrangement that is the main source of revenue for an attorney-in-fact acting as an agent for a reciprocal insurer is eliminated upon consolidation with the reciprocal insurer. Additionally, the consolidated balance sheet and statement of cash flows would be overstating the attorney-in-fact's financial position and liquidity. The attorney-in-fact would need to expand its disclosures, potentially including additional non-GAAP information, in order to provide the same level of transparency in its financial statements that analysts and investors are provided today.

For all the reasons listed above, we believe an attorney-in-fact acting as an agent for a reciprocal insurer has many of the same characteristics as asset managers in the groups that the FASB has identified as eligible for deferral. Therefore, we are requesting that you expand the definition of the entities eligible for a deferral to include an attorney-in-fact acting as an agent for a reciprocal insurer.

We believe this could be accomplished by amending the proposed exceptions in ASC 810-10-65-2 aa.1.i to include a subsection 03: "Is a reciprocal insurer and the reporting entity is an attorney-in-fact acting as an agent."

We have included our responses to Questions No. 1 and No. 2 in Appendix A. We have also included an overview of the operating structure of Erie Indemnity and its reciprocal insurer (Erie Insurance Exchange) in Appendix B.

We welcome the opportunity to further discuss our comments in this letter. If you have any questions or would like any additional information on the comments we have provided herein, please do not hesitate to contact me at (814) 870-7186.

Sincerely,

Marcia A. Dall

mariak Dall

Executive Vice President and Chief Financial Officer Erie Indemnity Company



Appendix A

Question 1: Do you agree that the Board should defer the effective date of Statement 167 for entities that meet the requirements in the proposed Update? Please elaborate as to why you believe this deferral is appropriate or not?

We agree that a deferral for those entities that meet the requirements of the proposed Update is appropriate. This will give the Board the necessary time to discuss the issues and the intended results of the guidance. We also believe this would be most effective if done as part of the joint project with the IASB.

Question 2: The Board expects that the deferral would only affect a limited number of types of entities, including but not limited to mutual funds, hedge funds, mortgage real estate investment trusts, private equity funds, and venture capital funds. The Board expects that this deferral would not apply to securitization entities, asset-backed financing entities, and entities formerly classified as qualifying special-purpose entities. For example, the Board does not expect this deferral to apply to (a) structured investment vehicles, (b) collateralized debt/loan obligations, (c) commercial paper conduits, (d) credit card securitization structures, (e) residential or commercial mortgage-backed entities, and (f) government-sponsored mortgage entities. That list is not meant to be all-inclusive as to the entities that the Board expects would not meet the requirements in this proposed Update for deferral. Do you believe that the amendments to paragraph 810-10-65-2 in this proposed Update clearly identify the population of entities that would qualify for the deferral? If not, please provide suggested language to assist the Board in achieving this goal.

We believe that the class of entities listed in the first sentence of Question 2 above should qualify for the deferral. However, we do not believe the deferral should be limited to just asset managers but rather should include other entities that have similar responsibilities and characteristics. The additional entities that would fit this fact pattern are limited but they should nevertheless receive the same treatment as the asset managers.

An attorney-in-fact acting as an agent for a reciprocal insurer has many of the same characteristics as an asset manager. An attorney-in-fact acting as an "agent" for its "principal" (the subscribers of the reciprocal insurer) has the following characteristics:

- a) a fiduciary duty to act in the best interests of the subscribers / policyholders of the reciprocal insurer
- b) no obligation to absorb losses of the reciprocal insurer;
- c) no rights to receive the benefits of the reciprocal insurer, other than through its market-based fee arrangement; and
- d) no obligation to provide financial support to the reciprocal insurer

The inconsistencies between the guidance on principal and agent relationships in Topic 810 and one of the proposals being considered by the IASB in Exposure Draft (ED) 10, may result in different consolidation conclusions for U.S. GAAP as compared to IFRS. We believe an attorney-in-fact acting as an agent for a reciprocal insurer, as described above, may qualify as an agent under certain views discussed by the IASB during its recent redeliberations of ED 10. If

those views are ultimately adopted as a result of the joint deliberations of the IASB and the FASB, attorney-in-fact relationships may not be required to consolidate under IFRS or U.S. GAAP. Therefore, we believe that an attorney-in-fact acting as an agent for a reciprocal insurer should be included in the deferral.

The consolidation required under Statement 167 also results in financial statements that are less meaningful and potentially misleading to financial statement users of an attorney-in-fact acting as an agent for a reciprocal insurer. The market-based fee arrangement that is the main source of revenue for an attorney-in-fact acting as an agent for a reciprocal insurer is eliminated upon consolidation with the reciprocal insurer. Additionally, the consolidated balance sheet and statement of cash flows would be overstating the attorney-in-fact's financial position and liquidity. The attorney-in-fact would need to expand its disclosures, potentially including additional non-GAAP information, in order to provide the same level of transparency in its financial statements that analysts and investors are provided today.

For all the reasons listed above, we believe an attorney-in-fact acting as an agent for a reciprocal insurer has many of the same characteristic as asset managers in the groups that the FASB has identified as eligible for deferral. Therefore, we are requesting that you expand the definition of the entities eligible for a deferral to include an attorney-in-fact acting as an agent for a reciprocal insurer.

We believe this could be accomplished by amending the proposed exceptions in ASC 810-10-65-2 aa.1.i item aa to include a subsection 03. "Is a reciprocal insurer and the reporting entity is an attorney-in-fact acting as an agent."

Appendix B

Erie Indemnity Company ("Erie Indemnity") is a publicly held Pennsylvania business corporation (NASDAQ: ERIE) that has since its incorporation in 1925 been the managing attorney-in-fact for the subscribers of Erie Insurance Exchange (the "Exchange"). The Exchange, which also commenced business in 1925, is a subscriber (policyholder) owned Pennsylvania-domiciled reciprocal insurer that writes property/casualty insurance. The primary function of Erie Indemnity is to perform certain services for the Exchange relating to sales, underwriting and issuance of policies on behalf of the Exchange and its subscribers (policyholders). This is done in accordance with the subscribers agreement (a limited power of attorney) executed by each subscriber (policyholder), appointing Erie Indemnity as its common attorney-in-fact to transact business on its behalf and to manage the affairs of the Exchange. Erie Indemnity earns a management fee for these services which is paid from the premiums collected from the subscribers (policyholders).

The Exchange and its property and casualty subsidiary (Flagship City Insurance Company) and Erie Indemnity's three property and casualty subsidiaries (Erie Insurance Company, Erie Insurance Company of New York and Erie Insurance Property & Casualty Company), (collectively the "Property and Casualty Group") write personal and commercial lines property and casualty coverage exclusively through approximately 9,000 independent agents and participate in a reinsurance underwriting pool. The member companies of the Property & Casualty Group each have a reinsurance pooling agreement with the Exchange, whereby each company cedes all of its property and casualty insurance to the Exchange. Erie Indemnity's subsidiaries then assume 5.5% of the total business pooled in the Exchange. However, Erie Indemnity does not have any liability to absorb the losses from the direct writings of the Exchange.

The financial results of the Exchange have never been consolidated with Erie Indemnity, and the Exchange's financial results are prepared and presented under statutory accounting principles and permitted practices in the states in which it operates. The Exchange has never prepared financial statements in accordance with generally accepted accounting principles.

Erie Indemnity serves as attorney-in-fact for the subscribers of the Exchange and, in that role, receives a management fee calculated as a percentage, currently 25%, of the direct written premiums of the Property & Casualty Group in exchange for performing policy acquisition activities for the Exchange. The formal Subscriber's Agreement, which is signed by all policyholders of the Exchange, limits the fee to a maximum of 25% of such premiums. The balance of each premium dollar is then used by Erie Indemnity, as attorney-in-fact, for the payment of Exchange's losses and loss adjustment expenses. The management fee accounted for approximately 77% of Erie Indemnity's revenues for the year ended December 31, 2008.

Because Erie Indemnity's earnings are primarily generated by fees based on direct premiums written by the Property and Casualty Group, it has a direct incentive to preserve the financial condition of the Exchange (much like an asset manager's incentive to successfully manage investments on behalf of an investment company's owners). The vast majority of the underwriting risk and capital costs of the property and casualty insurance business is borne by the Exchange, which had \$4.3 billion of policyholder surplus on a statutory basis at September 30, 2009. Through the reinsurance underwriting pool referred to above, Erie Indemnity's property and casualty subsidiaries currently assume 5.5% of the Property and Casualty Group's

underwriting results; therefore, Erie Indemnity also has a direct incentive to manage the underwriting operations as effectively as possible. The investment results of the Property and Casualty Group are not pooled as part of the pooling arrangement.

The Exchange by statute has no board of directors. In Erie Indemnity's capacity as attorney-infact, its Board of Directors has a duty to protect the interests of both the Exchange and its policyholders. Also under Pennsylvania insurance and corporate law, the Directors of Erie Indemnity are required to protect the interests of the policyholders of the Exchange as well as the shareholders of Erie Indemnity. Certain judgments necessarily occur as a result of these separate duties. Among these are:

- The Board of Directors of Erie Indemnity sets the management fee rate paid by the Exchange to Erie Indemnity. However, by virtue of the subscriber agreement signed by each policyholder, such amount cannot exceed 25% of the direct premiums written.
- The Board of Directors of Erie Indemnity decides the percentage participation of Erie Indemnity's property and casualty subsidiaries in the reinsurance pooling arrangement (currently 5.5%, the minimum level of pool participation permitted by the New York Department of Insurance).

The historical financial statements of Erie Indemnity have included summarized statutory basis financial information of Exchange and a detailed description of the relationship between the Exchange and Erie Indemnity in the financial statement footnotes and the management's discussion and analysis accompanying the financial statements.

We believe the nature and level of disclosure currently provided by Erie Indemnity represents the appropriate disclosure for all users of Erie Indemnity's financial statements. To aggregate the Exchange's operating results, financial position and cash flows with that of Erie Indemnity will likely confuse, and possibly mislead, users of Erie Indemnity's financials about the operating results, financial position and liquidity of Erie Indemnity.