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Technical Director
Financial Accounting Standards Board
401 Merritt 7
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NAMIC is a trade association comprising approximately 1,300 mutual property/casualty member insurers domiciled in the United States and another 100 in Canada. The 1,300 members domiciled in the United States write approximately 37 percent of the annual property/casualty premium in this country.

NAMIC appreciates the opportunity to provide comments to the Financial Accounting Standards Board (FASB) on its June 27 exposure regarding proposed disclosures about liquidity risk and interest rate risk. The following represents our comments to the questions for preparers of financial statements.

Questions for Preparers and Auditors—Liquidity Risk

Question 1: For a financial institution, the proposed amendments would require a liquidity gap table that includes the expected maturities of an entity's financial assets and financial liabilities. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

NAMIC Response: NAMIC anticipates significant operational constraints for most non-life insurance companies. This constraint is driven by the fact that non-life insurance companies, or more specifically property/casualty insurance companies, generally DO NOT perform asset liability matching on the vast majority of their portfolios as suggested by the exposure draft. Instead, most property/casualty insurance companies settle the majority of their liabilities with funds generated from operations. Additional liquidity is provided through liquid assets, such as U.S. government or municipal securities. Consequently, a liquidity gap table that presents expected maturities of assets and liabilities of a property/casualty insurer would not faithfully represent their liquidity management program of such companies.

Question 2: For an entity that is not a financial institution, the proposed amendments would require a cash flow obligations table that includes the expected maturities of an entity's obligations. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

NAMIC Response: The exposure draft defines all insurance companies as financial institutions, and, consequently, on the face it would seem that this question does not pertain to property/casualty insurance companies. However, NAMIC believes that because most property/casualty insurance companies do not perform asset liability matching, and instead settle the majority of their liabilities with funds generated from operations, they should NOT be considered financial institutions for purposes of this proposed standard. Consequently, we are responding to this question as such. It is our opinion that the proposed

cash flow obligations table of expected maturities is much more appropriate for our business model. In terms of operational concerns or constraints, we note that property/casualty insurance companies' liabilities are subject to significant uncertainty. This includes both the amount as well as the timing of such payments. In particular, liability lines of business contain so much uncertainty as to timing (and amount) that we question whether an auditor could opine on the accuracy of such information in the notes to financial statements without unworkable representations from management. Consideration needs to be given to this issue.

Question 3: The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. Expected maturity is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term expected maturity is more meaningful than the term contractual maturity in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.

NAMIC Response: NAMIC notes that property/casualty insurance contracts do not contain contractual settlement dates and consequently the only information that we could provide would be management's best estimate of the timing of expected payments. See response to question two for further information.

Question 4: The proposed amendments would require a quantitative disclosure of an entity's available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

NAMIC Response: As discussed in our response to question 1, most property/casualty insurance companies settle the majority of their liabilities with funds generated from operations and any additional liquidity is provided through highly liquid assets, such as U.S. government or municipal securities. Consequently, the Cash Flow Obligations disclosure and Available Liquid Funds disclosure are collectively much more appropriate to capturing the liquidity management program of a property/casualty insurance company. Our only concern with the available liquid funds table is that should not be viewed in isolation without further information. Specifically, the preparer must have the ability to provide other information to the user, such as its cash inflows from operations. Although such information is already available to the user in a direct cash flow statement, NAMIC supports the inclusion of these disclosures in the Management's Discussion and Analysis section where this information can be tied together more easily by management for the user.

Question 5: For depository institutions, the proposed Update would require a time deposit table that includes the issuances and acquisitions of brokered deposits during the previous four fiscal quarters. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

NAMIC Response: No response; property/casualty insurers are not depository institutions.

Question 6: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?

NAMIC Response: NAMIC believes that information regarding management's estimated timing of the payment of its claim liabilities in the form of the proposed disclosure regarding cash flow obligations and available liquid funds may be helpful for the same reason that is alluded to within our response to question one. Specifically, it would help others to understand that property/casualty insurers do not, nor do they need to, perform asset liability matching as is performed by life insurers and banks.

Questions for Preparers and Auditors—Interest Rate Risk

Question 13: The interest rate risk disclosures in this proposed update would require a repricing gap table. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

NAMIC Response: Consistent with our response to questions 1-7, NAMIC does not believe that this information would faithfully represent the business model of property/casualty insurers. More specifically, as discussed within our response to question one, property/casualty insurers DO NOT match their assets and liabilities. This is due to several reasons, but mostly because 1) the products are typically repriced every six months or every year; and, 2) there is so much uncertainty as to the timing of the claim payments that asset liability matching would not be cost beneficial.

Question 14: The interest rate risk disclosures in this proposed Update would include a sensitivity analysis of net income and shareholders' equity. Do you foresee any significant operational concerns or constraints in determining the effect of changes in interest rates on net income and shareholders' equity? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

NAMIC Response: NAMIC does not believe this information would be helpful for users of property/casualty insurance companies' financial statements. Again, most such insurers DO NOT utilize interest rate management programs as are used by long-term contract writers, such as life insurers or banks.

Question 15: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to understand your entity's exposure to interest rate risk? If not, what other information would better achieve this objective?

NAMIC Response: See response to question 14.

Questions for All Respondents

Question 20: The amendments in this proposed Update would apply to all entities. Are there any entities, such as nonpublic entities, that should not be within the scope of this proposed Update? If yes, please identify the entities and explain why.

NAMIC Response: NAMIC has provided input to the FASB in the past as it pertains to differences between private and public companies. Most of this input suggests no differences between the two types of entities as it pertains to measurement and valuation, provided such approaches are appropriate for all

types of entities. However, NAMIC has indicated that disclosure requirements for public and private companies should differ. NAMIC does not believe that the proposed disclosure of this exposure is appropriate for private companies. The primary difference between users of private and public companies financial statements is ability to access to management. As has been discussed with the FASB in the past, our primary users are insurance regulators and rating agencies, both of which have unlimited access to management. We noted in our response to question six that the Cash Flow Obligations disclosure and Available Liquid Funds disclosure may help others to understand that property/casualty insurers do not, nor do they need to, perform asset liability matching as is performed by life insurers and banks. The users of our financial statements already understand this. Consequently, we believe this disclosure is not necessary for private property/casualty insurers. We understand that investors may believe this information is necessary. However, as discussed within the exposure draft, the cost to implement this new guidance for public companies would be borne by investors, but the cost to implement this new guidance for private companies would be borne by policyholders. Because the information proposed does not align with information that is already prepared by private property/casualty insurers, it would not be cost beneficial.

Question 21: Although the proposed amendments do not have an effective date, the Board intends to address the needs of users of financial statements for more information about liquidity risk and interest rate risk. Therefore, the Board will strive to make these proposed amendments effective on a timely basis. How much time do you think stakeholders would require to prepare for and implement the amendments in this proposed Update? Should nonpublic entities be provided with a delayed effective date? If so, how long of a delay should be permitted and why? Are there specific amendments that would require more time to implement than others? If so, please identify which ones and explain why.

NAMIC Response: We recognize that the Board wishes for these disclosures to apply to all entities. We suggest the Board consider our previous comments that suggest that property/casualty insurers should NOT be considered financial institutions for purposes of this disclosure and that the only disclosure required for such insurers are those that are contained in the Cash Flow Obligations disclosure and Available Liquid Funds disclosure. Further, we suggest that these disclosures not be required of any non-public companies for the reasons we described in our response to question 20.

Respectfully,

Dave Broin
Chair, NAMIC Accounting Committee