February 15, 2012

Ms. Leslie F. Seidman  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

RE: (File Reference No. 2011-220)  
*Consolidation (Topic 810), Principal vs. Agent Analysis*

Dear Ms. Seidman:

The Automobile Club of Southern California ("ACSC") appreciates the opportunity to comment on the Proposed Accounting Standards Update ("proposed ASU"),  
*Consolidation (Topic 810), Principal versus Agent Analysis.*

ACSC is a nonprofit mutual benefit corporation that since 1900 has been providing members with services that meet their motoring and travel needs.

The Interinsurance Exchange of the Automobile Club ("Exchange") is a California reciprocal interinsurance exchange organized in 1912 that provides property and casualty insurance to members of ACSC and its affiliated motor clubs and to members of other Automobile Association motor clubs.

ACSC Management Services, Inc. ("Management Services") is a wholly owned subsidiary of ACSC and the corporate attorney-in-fact for the Exchange. Management Services performs functions related to the acquisition and issuance of insurance and the administrative activities associated with the business of the Exchange.

Under Accounting Standards Codification ("ASC") 810, *Consolidation, ("ASC 810")* effective January 1, 2010, the operations of the Exchange and its subsidiaries are consolidated into the financial statements of ACSC. Under current ASC 810 guidance, ACSC is deemed to be the primary beneficiary of the Exchange given the economic significance of the management agreement between the Exchange and Management Services and the power ACSC has to direct the activities that most significantly impact the Exchange’s economic performance.
We understand from the background information in the proposed ASU that the primary intent of these proposed changes is to provide additional considerations for investment managers so that the deferral provided in ASU 2010-10, Consolidation (Topic 810): Amendments for Certain Investment Funds will no longer be necessary. However, we respectfully request that the FASB consider the circumstances of reciprocal insurance exchanges for which the purpose and intent of the guidance may also be applied.

In particular, the current language in the proposed ASU regarding the magnitude and variability of the compensation (management fee) places emphasis on the magnitude of the fee without consideration for its components. We believe this is contradictory to the purpose and design of an attorney-in-fact arrangement in which the magnitude of the fee may be substantially disproportionate to the benefits received from the insurer. To provide further clarification, we recommend that the proposed guidance in the compensation factor be expanded to consider these circumstances, as described in our response to Question 2 and the proposed amendment, which is attached as Appendix A.

Furthermore, we believe that there should be separate guidance for nonpublic entities. The consolidation of such a disparate variable interest entity as a reciprocal insurer with an automobile club’s financial statements does not improve financial reporting for the users of the automobile club’s financial statements, as described in our response to Question 15, which is also attached in Appendix A.

We welcome the opportunity to further discuss our comments in this letter. If you have any questions or would like any additional information regarding our comments, please do not hesitate to contact me at (714) 885-1261.

Sincerely,

David M. Mattingly
Senior Vice President and Chief Financial Officer
Automobile Club of Southern California
Appendix A

Question 2: The evaluation of a decision maker’s capacity would consider the following factors:
   a. The rights held by other parties
   b. The compensation to which the decision maker is entitled in accordance with its compensation agreement(s)
   c. The decision maker’s exposure to variability of returns from other interests that it holds in the entity.

Are the proposed factors for assessing whether a decision maker is a principal or an agent appropriate and operational? If not, why? Are there any other factors that the Board should consider including in this analysis?

We agree with the three factors listed above as being the appropriate factors to consider, and we agree that the qualitative assessment approach in the proposed ASU is operational. However, we would respectfully request that the FASB consider the circumstances of reciprocal insurance exchanges for which the purpose and intent of the guidance may also be applied.

The current language in the proposed ASU regarding the magnitude of the compensation (management fee) places emphasis on the magnitude of the fee without consideration of its components. We believe this is contradictory to the purpose and design of an attorney-in-fact arrangement, in which the magnitude of the fee may be substantially disproportionate to the benefits received from the insurer. To provide further clarification, we recommend that the proposed guidance in the compensation factor be expanded to consider these circumstances.

The management fee for an attorney-in-fact of a reciprocal insurer substantially represents a recovery of expenses incurred by the attorney-in-fact related to the acquisition and issuance of insurance and the administrative activities associated with the business of the insurer. Only the portion of the management fee retained by the attorney-in-fact in excess of actual costs incurred represents the attorney-in-fact’s rights to benefits from the insurer. In this situation, the management fee is significant to the insurer primarily due to the inclusion of the recovery of costs.

Per review of paragraphs 810-10-25-391 – 810-10-25-40J of the proposed ASU, an attorney-in-fact for a reciprocal insurer meets the criteria for acting in an agent capacity.
for the reciprocal when considering the compensation of the decision maker as well as the purpose and design of the entity, with the sole exception of the magnitude of the management fee. The management fee in an attorney-in-fact arrangement for a reciprocal insurer includes a recovery of costs paid by the attorney-in-fact on behalf of the reciprocal insurer. The attorney-in-fact functions in an agent capacity for policyholders and the reciprocal insurer in light of the following characteristics in the purpose and design of the attorney-in-fact role:

- Policyholders appoint the attorney-in-fact to act on their behalf to exchange insurance contracts with other policyholders and to sign and deliver all necessary contracts and to perform all other related acts that policyholders may perform;
- The reciprocal insurer enters into a management agreement with the attorney-in-fact to perform services related to the acquisition and issuance of insurance and the administrative activities associated with the business of insurance;
- Under these arrangements, the attorney-in-fact has no obligation to absorb losses of the reciprocal insurer and no rights to receive the benefits of the reciprocal insurer, other than through the fee arrangement under the management agreement; and
- The attorney-in-fact has no obligation to provide financial support to the reciprocal insurer

The primary difference between an investment manager and the attorney-in-fact for a reciprocal insurer is that the attorney-in-fact for a reciprocal insurer provides services related to the acquisition and issuance of insurance and the administrative activities associated with the business of the reciprocal insurer. These services and activities are customary to the insurance industry, and involve claims, underwriting, sales and service, information technology, marketing, human resources, and administrative services that are subsequently recovered in the management fee. This results in a management fee that is “grossed up” to include funding expenditures that do not occur in the normal course of business of investment managers. Since the management fee includes reimbursement for the actual costs incurred, the result is a net benefit to the attorney-in-fact that is significantly less than the gross management fee. For attorney-in-fact/reciprocal insurer arrangements, we believe the comparability of the management fee to the costs for similar services incurred by other insurers should be given more consideration than the magnitude of the gross management fee.

In 2010, the consolidated operations of ACSC generated over $4 billion in total revenue and its consolidated assets were in excess of $9 billion. The reimbursement of
administrative expenses incurred by Management Services on behalf of the Exchange was $803 million and $757 million in 2010 and 2009, respectively. Management Services also received a fixed percentage of the Exchange’s earned premium that did not vary based on the profitability of the Exchange, which was $22 million for both 2010 and 2009. This $22 million represented the net benefit of the fee paid to Management Services by the Exchange and was less than 1% of total 2010 revenue. It is also important to note that the primary determinant of the variability of the Exchange’s economic performance is not related to earned or written premiums and administrative costs, which provide the basis for determining the management fee, but rather related to other significant activities of the Exchange, such as claims losses and investments, which do not factor in the calculation of the management fee.

In order to provide reciprocal insurance entities with comparable principal vs. agent analysis guidance, we respectfully propose that paragraph 810-10-25-39J be amended to add the following sentence at the end of the paragraph:

If no other interests in the entity exist (other than the compensation arrangement) and the magnitude of the compensation is the result of costs paid by the decision maker which are subsequently recovered through the compensation arrangement, then a market commensurate rate for services should be presumptive that the decision maker is an agent, regardless of the magnitude of the fee.

Question 15
Should the amendments in this proposed Update be different for nonpublic entities (private companies or not-for-profit organizations)? If the amendments in this proposed Update should be applied differently to nonpublic entities, please provide a rationale for why.

We believe that there should be separate guidance for nonpublic entities. The consolidation of such a disparate variable interest entity as a reciprocal insurer with an automobile club’s financial statements does not improve financial reporting for the users of the automobile club’s financial statements. As of December 31, 2010, ACSC’s members’ equity was $379 million, or only 8% of the consolidated equity and noncontrolling interests after consolidation with the Exchange under current ASC 810 guidance. As of December 31, 2010, the Exchange’s policyholders’ equity was $4,183
million. We believe the consolidation of the Exchange and ACSC has not produced meaningful results.

Furthermore, there is a difference in purpose of the financials between those for a public company, where the readers are making investment decisions and where all associated relationships may be important, to those of an automobile club, where the readers of the financials are focused purely on the operations for of the automobile club, and where they are making much "narrower" membership decisions. In an automobile club situation, the additional information stemming from consolidation of the insurance company may make the financials less meaningful to a non-sophisticated reader.

Likewise, for most nonpublic entities, consolidation of variable interest entities does not improve financial reporting, and the cost of analysis and the consolidation process is not justified by the benefit derived from having performed the analysis or prepared consolidated financial statements. The disclosure of the related party relationship generally provides information sufficient to meet the needs of the users of the financial statements of nonpublic entities.