

December 15, 2010

Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5166 Norwalk, CT 06856-5116

Re: File Reference No. 1870-100: Preliminary Views on Insurance Contracts

Massachusetts Mutual Life Insurance Co. ("MassMutual", "the Company", "we" or "our") appreciates the opportunity to provide comments on the FASB Discussion Paper: *Preliminary View on Insurance Contracts* (DP) and supports the development of a converged, comprehensive, high quality standard for insurance accounting.

MassMutual and its subsidiaries are a global, diversified financial services organization providing life insurance, disability income insurance, long-term care insurance, annuities, retirement and income products, investment management, mutual funds, trust services, collateralized lending, financing and leasing services to individual and institutional customers. MassMutual is organized as a mutual life insurance company owned by its policyholders. The Company's core business is participating whole life insurance contracts that extend 20, 30, 40 or more years into the future.

As the FASB and IASB have differing views on important aspects of the proposed guidance, which are described in the Appendix to the DP, we encourage the Boards to resolve these differences before issuing a final standard so that convergence can be achieved.

MassMutual believes the DP topics discussed below require reconsideration.

Discount Rate

The determination of an appropriate discount rate is an essential component for measuring an insurance contract liability. Under the proposed guidance, the discount rate represents the market rate of an instrument with cash flows whose characteristics reflect those of the insurance contract liability. The proposed guidance goes on to state that the discount rate should be a risk free rate with a liquidity adjustment.

MassMutual believes that the discount rate for insurance contracts should include the characteristics of the assets backing the liabilities to better reflect the economics of the business. However, if the industry is required to calculate a discount rate based on the characteristics of the liability, MassMutual recommends a discount rate that is determined based upon the rate credited to the contract instead of the risk free rate with an undefined

liquidity adjustment. This rate "credited" to the contract exists in two forms: first, it is the rate credited directly to policyholder accounts and liabilities and, second, it is how investment earnings factor into the development of a policy premium rate.

Financial Statement Presentation

The majority of the FASB Board members agreed with the IASB's proposal to use a margin presentation which proposes that premium, claims and incremental acquisition costs no longer be reported on the face of the financial statements. Instead, the income statement would present (i) changes in margins, (ii) interest on the insurance liability and (iii) changes in estimates for insurance cash flows. Also, in such a presentation, premiums would be treated as deposits and claims, benefit payments and certain expenses would be reported as withdrawals.

MassMutual does not believe that financial statement users will find the margin approach useful and believes that premium, benefits and expenses are key performance measures that belong on the face of the financial statements. We are however, in support of disclosing the margin information in the notes to the financial statements.

Limitation on Expenses and Acquisition Costs

MassMutual recommends that all expenses priced for in the premium be included in the measurement of the insurance liability. The DP limits expenses in the insurance liability calculation only to those acquisition costs that are incremental at the individual contract level.

If the Board does not include all expenses that are priced for in the premium, then we propose expanding the definition of acquisition costs included in the measurement of the insurance liability. We believe that certain acquisition expenses that can be attributed to acquiring a new business portfolio cannot be measured at the individual contract level, but should be accumulated at the portfolio level and considered in the measurement of the insurance liability. Examples include: underwriting and issue expenses, allowances to career agents, and volume or success bonuses that are dependant on aggregate sales levels. Therefore, at a minimum we recommend that the definition of acquisition costs be expanded and the use of a portfolio approach for determining acquisition costs be adopted by the Board.

Participating Features

MassMutual agrees with the DP that the measurement of insurance contracts should include participating benefits such as dividends. The determination and payment of dividends is a key contractual obligation created in a participating contract, and as such should be included as a cash flow when measuring the insurance liability. We also believe there should be no exclusion or limitation placed on the elements that contribute to establishing the amount of the dividend. To do so would result in a measurement that is not a faithful representation of the liability and would provide users with misleading information.

Unbundling

The DP proposes that components that are not closely related to the insurance contract be unbundled and accounted for separately under a different standard. MassMutual manages insurance contracts as a whole and believes that most components of insurance contracts are interrelated and should not be unbundled. We believe that unbundling is appropriate only in cases where the components can be measured and managed separately.

Conclusion

In summary, MassMutual believes there are a number of challenges with the proposed guidance. We are also concerned with the amount of new disclosures being proposed and recommend that the guidance for reinsurance, unit-linked accounts (separate account products) and policy loans be expanded. Further, we believe that the IASB's June 30, 2011 target completion date for the guidance is overly aggressive and that the quality demanded for a comprehensive insurance accounting standard demands further study. We urge both Boards to develop an appropriate and consistent timeline for the insurance contracts guidance. We also recommend additional field testing be performed in order to achieve a high quality standard for insurance.

On the following pages are MassMutual's responses to the specific questions in the DP.

Sincerely,

Norman Smith

Senior Vice President and Controller

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FASB-Discussion Paper: Preliminary Views on Insurance Contracts

Definition and Scope

1. Are the proposed definitions of *insurance contract* and *insurance risk* (including the related guidance) understandable and operational?

Yes, we believe that the proposed definitions of *insurance contract* and *insurance risk* are understandable and operational.

2. If the scope of the proposed guidance on insurance contracts is based on the definition of an insurance contract rather than on the type of entity issuing the contract, would financial reporting be improved?

Yes, we believe that financial reporting would be improved if the scope is based on the definition of an insurance contract. We believe that consistency and comparability will be achieved since the guidance focuses on the accounting for insurance contracts rather than on the type of company that issues insurance contracts. Non-insurance companies may engage in an activity that meets the definition of insurance. If they engage in these insurance activities, then we believe their accounting model should be the same.

3. Do you agree with the proposed scope exclusions? Why or why not?

Yes, we agree with the scope exclusions in paragraph 28, except those noted in paragraph 28(b). Specifically, 28(b) scopes out employers' assets and liabilities under employee benefit plans. In some cases employee benefit plans, typically the defined benefit plans, purchase insurance contracts issued by insurance entities. These contracts are usually annuities with investments in separate accounts. We believe that these types of contracts should be in the scope of the guidance for the Company that issues the annuity contract, but not in scope for the benefit plan or company that purchases the annuity contract.

4. Should benefits that an employer provides to its employees that otherwise meet the definition of an insurance contract be within the scope of the proposed guidance? Why or why not?

Yes, we believe that benefits that an employer provides to its employees that otherwise meet the definition of an insurance contract be within the scope of the proposed guidance. For example, as part of their compensation, employees of insurance entities may receive life and health insurance coverage. We are concerned that the guidance may exclude such contracts from being accounted for as insurance contracts, even though they are the same as life and health insurance contracts issued to third parties.

5. The Board's preliminary view is that participating investment contracts should not be accounted for within the proposed model for insurance contracts but, rather, should be included in the scope of the proposed model for accounting for financial instruments. Do you agree? Why or why not?

Yes, we agree. Since these contracts do not transfer significant insurance risk they should not be accounted for within the proposed model for insurance contracts. These contracts should be within the scope of the proposed model for accounting for financial instruments. We believe only insurance contracts should be in the insurance contracts standard.

6. Do you support the approach for determining when noninsurance components of contracts should be unbundled? Why or why not?

No, we do not support the approach. The DP requires that components of an insurance contract that are not closely related be unbundled and therefore accounted for under a different standard. We recommend that unbundling occur only in cases where the components can be measured and managed separately.

We also recommend that the Board develop additional guidance on which components should or should not be unbundled. This additional guidance would be helpful to ensure consistency between preparers of the financial statements.

Recognition and Measurement

7. Do you agree with the use of the probability-weighted estimate of net cash flows to measure insurance contracts? Does that approach faithfully represent the economics of insurance contracts? Is it an improvement over existing U.S. GAAP?

Yes, we agree with the use of probability-weighted estimate of net cash flows to measure insurance contracts (i.e., taking into account both future cash inflows and outflows) and that it faithfully represents the economics of insurance contracts. That is how insurers expect to extinguish the liability, by fulfilling the liability through payment of benefits and claims to policyholders as those benefits and claims become due.

Although we agree conceptually with the use of probability weighted cash flows, we believe the standard should clarify that a full stochastic approach to evaluating these cash flows is not always required.

Further, we believe that there are other expenses, such as corporate overhead and non-incremental expenses, that are necessary to fulfill all in-force contracts. We recommend such costs also be included in the measurement of the insurance liability.

8. Do you think that an entity's estimate of the net cash flows should include a risk adjustment margin?

No, we believe that the calculation of a risk adjustment is heavily reliant on judgmental risk assumptions and will not be comparable between companies.

9. Is the objective of the risk adjustment margin understandable? If so, do you think that the techniques for estimating the risk adjustment margin (see paragraph 52(b)),

faithfully represent the maximum amount that the insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected?

No, we do not believe that the objective of the risk adjustment margin is understandable. We do not agree that the risk adjustment should depict the maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected and have conceptual issues with the application of this requirement. If the risk/residual approach is adopted, we believe the risk adjustment should be based on reasonable provisions for adverse deviation (taking into account all tail risks).

Further, we do not agree that the techniques for estimating the risk adjustment should be limited to the three described in the DP for the following reasons:

- 1. Limiting the techniques is inconsistent with the principles based approach.
- 2. Other techniques may be more appropriate in certain circumstances.
- 3. New techniques could be developed in the future which might be more appropriate in certain circumstances.

Risk measurement techniques are evolving rapidly. We would not want to inhibit the development and application of sound new techniques. The technique used for estimating the risk adjustment should be determined using professional judgment of the actuarial community. However, companies should be required to disclose which technique was used.

10. Do you think that the risk adjustment margin would be comparable for entities that are exposed to similar risks?

No, we believe that the calculation of the risk adjustment is very subjective. In turn, this subjectivity will cause significant comparability issues. Also, since the risk adjustment plus the residual adjustment equals the composite margin at issue, we believe the composite margin is a better approach as it is verifiable, transparent and not reliant on subjective risk assumptions.

11. Do you agree with the description of cash flows that should be included in the measurement of an insurance contract? Is the proposed guidance operational?

We agree with what's included in the description of cash flows in the measurement of an insurance contract. However, we believe that there are other expenses that should also be included, such as corporate overhead and non-incremental expenses that are necessary to fulfill all in-force contracts. We recommend such costs also be included in the measurement of the insurance liability. See our response to Question 7.

Although not specifically raised in the DP, we want to note that we do not agree with the statement in Paragraph B61(j) of the IASB ED, that includes dividend obligations to **future policyholders** in the present value of expected cash flows, unless local regulations

would require it. We believe that obligations to future policyholders would not be within the boundary of the contract. Therefore, if there is such a future liability, it should be accounted for outside the insurance contract liability.

We are also concerned that there will be an inconsistency between the cash flows used in the reserve calculation and cash flows used in the development of the dividend scale. For example corporate overhead would not be included in the cash outflows for the reserve calculation, but would be included in the dividend scale. To the extent that the dividend scale is reduced to recover additional corporate overhead, the liabilities will decrease and the Company will recognize a gain. We believe it would be improper to recognize a gain in this situation. Therefore, to avoid this issue we recommend that corporate overhead be included in the measurement of the liability.

We can avoid this issue by including the expenses, such as overhead, in the measurement of the liability as previously described or by allowing the cash flows of the contract to include "other assessments" as allowed in FAS 97, paragraph 23 (e). Specifically, FAS 97, paragraph 23 states the following:

Estimated gross profit, as the term is used in paragraph 22, shall include estimates of the following elements, each of which shall be determined based on the best estimate of that individual element over the life of the book of contracts without provision for adverse deviation:

- a. Amounts expected to be assessed for mortality (sometimes referred to as the cost of insurance) less benefit claims in excess of related policyholder balances
- b. Amounts expected to be assessed for contract administration less costs incurred for contract administration (including acquisition costs not included in capitalized acquisition costs as described in paragraph 24
- c. Amounts expected to be earned from the investment of policyholder balances less interest credited to policyholder balances
- d. Amounts expected to be assessed against policyholder balances upon termination of a contract (sometimes referred to as surrender charges)
- e. Other expected assessments and credits, however characterized.

We would propose that (e) above be added to the definition of cash flows defined in paragraph 23 of the ED.

12. Do you agree that the carrying amount of all insurance contracts should be discounted if the effect is material? Do you agree with the proposed guidance on the discount rate that should be used to measure the carrying amount of insurance contracts? If not, which discount rate should be used?

Yes, we agree that the carrying amount of all insurance contracts should be discounted if the effect is material. However, we do not agree with the proposed guidance on the discount rate. Specifically, we do not agree that the discount rate used by the insurer for non-participating contracts should reflect the characteristics of the insurance contract liability; instead we believe the discount rate should reflect the characteristics of the assets backing that liability. This is a more accurate reflection of the economics of our business because the return on the assets is used to determine the premium, which is part of the measurement of the liability.

We also believe that the proposed discount rate definition that requires a risk free rate plus a liquidity premium would misrepresent the economic substance of long-duration insurance contracts. For example, it would not include the crediting rate that a customer would require to enter into an insurance contract. The proposed discount rate in a low interest rate environment could overstate the value of the insurance liabilities resulting in losses, when such losses might be avoidable through asset liability matching. We believe that it would be misleading to report a loss under such circumstances and that this would create irrelevant and unreliable information for the users of the financial statements.

Also, in calculating the discount rate, liquidity is only one of many items considered in determining the current crediting rate or the implied discount rate used to price insurance products. There is no generally accepted approach for identifying a liquidity premium for insurance contracts and there is intentionally very little guidance in the DP on how to calculate a liquidity premium. Therefore, complexities arise when a company tries to determine only the liquidity premium portion of the discount rate.

If the Board will not allow a discount rate based on the assets that support the liabilities, then we recommend using an alternative approach to determine discount rates based upon the rate that we either implicitly or explicitly credit to the policyholder. The rate is implicit in the form of premium reduction or explicit in the form of interest credited. Specifically, the premium charged to a customer is set based on a number of factors. One of these factors is the amount of investment income that can be reasonably earned on the assets that back the insurance liabilities. We use a portion of the earnings on the assets to reduce premiums charged to the customer, a portion to cover for credit risk of the asset, and a portion to provide a source of profit to the Company. The current DP should consider these factors when setting the discount rate.

13. Do you think that acquisition costs should be included as one of the cash flows relating to the contract? If not, how would you account for acquisition costs?

Yes, we agree that acquisition costs should be included as one of the cash flows relating to the contract. We also believe that there are many other expenses that cannot be related directly to the insurance contracts in the portfolio but are necessary to fulfill all in-force contracts. We recommend such costs also be included in the measurement of the insurance liability.

14. Do you agree that acquisition costs included in the cash flows used in the measurement of the insurance contract should be limited to those that are incremental at the individual contract level? If not, which acquisition costs, if any, would you include in the measurement of the insurance contract?

No, we do not agree that acquisition costs should be limited to those that are incremental at the individual contract level. We believe that in determining acquisition costs, a portfolio approach is more appropriate than an individual contract level approach. There are a number of types of acquisition expenses that are current incremental acquisition expenses and that can be tied directly to new business of a portfolio, but cannot be tied directly to an individual contract. Examples include underwriting and issue costs, expense allowances to career agents, and volume or success bonuses that are dependant on aggregate sales levels.

We also believe that there are many other expenses that cannot be related directly to the insurance contracts in the portfolio but are necessary to fulfill all in-force contracts. We recommend such costs also be included in the measurement of the insurance liability.

15. Do you agree with the use of either the composite margin approach or two-margin approach to measure the net insurance contract? Does either approach faithfully represent the economics of insurance contracts? Is either approach an improvement over the measurement used in current U.S. GAAP?

We prefer the composite margin approach to measure the net insurance contract. We believe the composite margin approach is a better approach than the two-margin approach as it is verifiable, transparent and not heavily reliant on judgmental risk assumptions required to calculate the two-margin approach.

We do not know enough about the practical implications of the measurement model, including the margin approach to determine whether either approach is an improvement over current U.S. GAAP.

16. Do you think that the composite margin should be recognized in earnings in subsequent periods using the ratio described in paragraph 83? If not, how would you recognize the composite margin in earnings?

We do not believe there should be only one method for releasing the composite margin. In addition, we have some concern about the use of the allocated premium methodology described in the DP. For example in a 20 pay life contract, premium would be allocated over the life of the contract based on the benefit payments. Yet for an annual premium policy, the premium would not be allocated over the benefit payments. This inconsistency should be reconsidered.

Overall, we believe that reallocating premium over the benefit period would delay too much of the profit to the end of the coverage period. We recommend recognizing the composite margin in earnings based on the coverage period. Different methods to release the composite margin are necessary because not all products have the same product features. Using coverage period will allow companies the flexibility to use different methods to release the composite margin in a way that reflects the underlying economics of the contract while considering the product features of each type of insurance product.

17. Do you agree that interest should not be accreted on the composite margin? Why or why not?

Yes, we agree since the composite margin is a noncash item that eliminates day one gains, and is not an obligation (that is, expected future net cash flows). Therefore, accretion of interest would not be appropriate.

18. Do you think that all insurance contracts should be recognized and measured using one approach or that some insurance contracts should be recognized and measured using an alternative approach (for example, the modified approach)? Why or why not?

We strongly support a two-model approach as used in U.S. GAAP today whereby short duration contracts are separate and distinct from long duration contracts.

19. If an alternate approach is required for some insurance contracts, what recognition, measurement, and presentation provisions should be applied (including those items noted in paragraph 106)?

If an alternate approach is required for some insurance contracts (e.g., short duration contracts), we believe the guidance should be principles based and state that it would typically apply to single year policies but might be applicable for policies of more than one year. This would allow the simplified approach to be used for those multiple year agreements where the economic substance is essentially the same as those of single year or shorter agreements.

20. Do both the building-block approach and the modified approach (with the latter approach applied only to certain short-duration contracts) produce relevant and decision-useful information? Why or why not?

We support measuring insurance contracts based on expected future cash flows taking into account both future cash inflows and outflows. That is how insurers expect to extinguish the liability, by fulfilling the liability through payment of benefits and claims to policyholders as those benefits and claims become due. However, we believe certain modifications need to be made in the proposed model in order for it to produce relevant and decision-useful information that will help users make economic decisions. Specifically, modifications should be made to the determination of the discount rate, presentation, limitation of expenses and unbundling.

21. How should the scope of insurance products for each approach be defined (for example, duration of coverage period, duration of claims payment period, or type of insurance)?

We strongly support a two-model approach as used in U.S. GAAP today whereby short duration contracts are separate and distinct from long duration contracts. The guidance should be principles based as noted in our response to Question 19 above.

22. Are there specific types of insurance contracts for which the approaches would not provide decision-useful information?

No comment.

23. What are the implications of the recent U.S. healthcare reform to the application of the proposed contract boundary principle, including whether health insurance contracts written under the new reforms would meet the conditions in the proposed guidance to be accounted for under the modified approach?

No comment.

24. What other changes should be considered to both improve and simplify U.S. GAAP for short- and long-duration insurance contracts?

In addition to the changes discussed in this DP, we propose these additional comments for your consideration:

- We agree that an insurer should not recognize any gain at initial recognition of an insurance contract since the insurer has not yet performed under the terms of the contract.
- The residual margin should not be less than zero so that losses at initial recognition are recognized immediately.
- We do not agree with the proposed boundary principle and we do not believe insurers would be able to apply it consistently in practice. We also do not agree with the recognition provisions and therefore, we propose that an insurance liability be established at the later of the issue date or effective date of the contract. We believe this definition will be consistently applied.
- The composite margin should be calculated for a portfolio of insurance contracts and within that portfolio by similar date of inception. We have a concern about the specificity behind the phrase "similar coverage period". Taken literally, it could subdivide your portfolio into an issue age and issue year categorization. When, in fact, a more simplified issue year and grouped ages only portfolio approach would suffice. Some clarification that this is not the intended result would be helpful.
- There is no guidance in the DP related to the accounting for policy loans or premiums due. Policy loans are unique to life insurance entities. Policy loans are loans made to contract holders using their life insurance contract's cash value as collateral. If the contract holder stops paying premiums after a loan equals the surrender value, the contract is terminated. Premiums due represent the amount of premium the customer has been billed for, but has not yet been received.

A significant amount of cash flows from life insurance contracts involve policy loans and premium due. Paragraph 40 of the DP recognizes that there are various types of policy components that are not closely related to the insurance coverage. However, it does not provide examples of components that are closely related to the insurance coverage. We believe it would be helpful to add some examples of components that are closely related to the insurance coverage, such as policy loans and premium due from customers. Specifically, we recommend that you consider adding the following to paragraph 40:

The following are the examples of components that are closely related to the insurance coverage:

- (a) Policy loans are considered closely related to the insurance coverage because they may contain more than one of the following features:
 - 1. The amount of death benefit paid under the contract is reduced by the amount of any outstanding policy loans.
 - 2. The insurance contract and related insurance coverage will lapse if the policy loan exceeds the contracts cash surrender value.
 - 3. Policy loans are automatically advanced at policy anniversary, if premium has not been paid by the insured.
 - 4. The amount of dividends credited to a contract may be adjusted for the difference between the policy loan interest rate and the crediting rate.
- (b) Premium due is considered closely related to the insurance coverage because it represents the amount of premium the customer has been billed for, but has not yet been received.

If the IASB proposal is used by the FASB as the starting point rather than current U.S. GAAP, we propose these additional comments for your consideration:

• We do not agree with the proposed transition requirements in the IASB ED. The effect of not recognizing a residual margin for contracts in existence at transition would eliminate a large portion of the margin to be earned in periods after transition. For example, entering into otherwise identical contracts before and after the transition dates will have very different outcomes since the transition rules would result in some embedded profits being recognized directly in retained earnings rather than in future earnings. As a result, two identical contracts one entered into on the day before transition and the other entered into on the day after transition will have drastically different results reported over the remainder of the coverage period. This would create irrelevant and unreliable information for the users of the financial statements for decades in the case of established insurers with long duration businesses.

We recommend that a practical expedient be developed to allow entities to retrospectively adopt the guidance. We can make reasonable estimates of the effect on prior years on the basis of specific circumstances. Without some

accommodation on this point we are uncertain how companies would recalculate the necessary detail in adopting a retrospective application. Further, we do not believe it would be practical to recalculate this detail every year if we can reasonably estimate those amounts.

• We generally agree with the proposals on unit-linked contracts (e.g., variable separate accounts). However, there is confusion on whether these unit-linked contracts can be presented in a single line item on the balance sheet. For example, assuming variable separate accounts are unbundled, the unbundled amounts for the investment portion would be accounted for under the financial instruments standard while the insurance portion would be accounted for under the IASB ED. However, the financial instruments standard does not have any guidance related to a one line presentation. We do not believe this was the intent. We believe the IASB's intent was for separate account presentation to be a one line item presentation. We recommend clarification of this issue.

25. What are the incremental costs of adopting the alternatives described in this Discussion Paper? Please separately describe one-time costs and ongoing costs.

We believe that we would incur significant incremental costs as it would take 5-7 years and maybe longer for insurers to adopt the proposed requirements. Incremental one-time costs incurred would result from the following:

- 1) understand the principles and develop company accounting policies,
- 2) specific challenges include:
 - a) final rules on unbundling.
 - b) possibly separating guaranteed cash flows from other cash flows and discounting them independently.
 - c) possibly calculating interest earned on investment contracts separate from interest earned on insurance contracts on the face of the statement.
 - d) for contracts with cash flows dependent on our investments, developing more robust modeling ability.
- 3) develop the valuation reserve models necessary to calculate the probability weighted cash flows and margins,
- 4) purchase and install hardware (i.e. GRID servers) and code new software that can run complicated valuation reserve models,
- 5) calculate remaining margin at transition,
- 6) make contract administration system changes to provide the additional contract data needed to perform the additional reserve calculations by the reserve valuation models.
- 7) develop a method to determine discount rates,
- 8) develop new plans and targets to manage the business and determine incentive compensation,
- 9) develop new product pricing and risk hedging models,

- 10) develop the financial statements and footnotes to statements,
- 11) obtain audits for prior years, and
- 12) educate users of financial statements.

There will also be higher ongoing costs of measuring and reporting under the new standard because of the complexity of the model. Also, as proposed, results will be more volatile and therefore, more analysis will be required to understand those results.

Reinsurance

26. The scope of the proposed guidance includes reinsurance contracts that an insurer issues or acquires. However, insurance contracts held directly by other policyholders would be excluded from the scope of the proposed guidance. Do you agree with this exclusion? Why or why not?

We have no objection to excluding insurance contracts held by policyholders from the project scope so long as it is clear that the exclusion does not apply to reinsurance contracts. For example, if a life insurance company purchases property insurance, we believe that the accounting for that property insurance by the life insurance company should be excluded from the scope of the proposed guidance while the accounting for the contract by the property insurance company should be in the scope of the guidance.

27. Should there be symmetry between the recognition and measurement of reinsurance contracts and the underlying contract ceded?

Yes, we recommend that the same model (building blocks approach or modified approach) be used for the reinsurance contract as that used for the underlying contract.

Presentation and Disclosure

28. The margin presentation approach highlights the changes in the insurance liability, rather than the current approach in U.S. GAAP, which presents, among other items, premium revenues, benefits paid, operating costs, and changes in loss estimates. Would this change improve your understanding of the performance of an entity that provides insurance (for some types of insurance or for all)? Please explain.

No, we do not believe the margin presentation would improve our understanding of the performance of an entity that provides insurance. We also do not believe the margin presentation will be useful to users of financial statements. We are however, in support of disclosing such information.

We believe that a premium approach (i.e., premiums reflecting revenue), similar to the FASB's Alternative 2 written premium approach is a better presentation view on the financial statements. We believe excluding premiums, claims expenses, claim handling expenses and other expenses included in the measurement of insurance contracts from the

income statement will significantly impair the usefulness of the income statement for all users. We do not believe that requiring disclosure of these items in the footnotes is an adequate substitute for reporting them on the face of the statement. We believe that the income statement should provide actual, relevant information regarding premiums and expenses so that comparability exists between companies.

Our recommendation is to retain line items for premium revenue, investment income, residual composite margin, claims and benefit expenses, incremental and non-incremental acquisition costs and interest expense on expected cash flows. We would also propose separate line items for the details of the other change in the insurance liability, such as the experience adjustment, the change in estimates of future cash flows, the change in the risk adjustment and residual or composite margin and the difference between the premiums received and the claims and benefits.

29. Should insurance contracts measured under the building-block approach be presented using a margin presentation approach or a premium presentation approach that would require a true-up amount as described in paragraph 119 (for example, the written allocation presentation approach or the allocated premium presentation approach)?

We believe insurance contracts should be presented using a premium presentation approach as we note in our response to Question 28 above.

30. Should short- and long-duration (or nonlife and life) contracts be presented in a similar manner even if such contracts are measured under different approaches?

Yes, short and long duration contracts should be presented in a similar manner.

31. Do you agree with the proposed disclosures in the IASB's Exposure Draft? Why or why not? If not, what would you recommend and why?

No, we do not agree with all the proposed disclosure requirements. We believe they go beyond meeting the proposed objective as provided in paragraph 79: "To help users of financial statements understand the amount, timing and uncertainty of future cash flows arising from insurance contracts, an insurer shall disclose qualitative and quantitative information about (a) the amounts recognized in the financial statements arising from insurance contracts; and (b) the nature and extent of risks arising from insurance contracts." We are concerned about the significantly high volume of disclosures presented in paragraphs 85-97 of the IASB ED. Compliance with these extensive disclosures will be costly and likely provide only limited benefit to users. For example, the release of the residual margin or composite margin is a systematic run-off over a period of time. Detailing this run-off does not provide useful information.

We are also concerned about disclosing proprietary information. With regards to the risks arising from insurance contracts other than insurance risks, the guidelines in the ED specifically indicate that the disclosure of summary qualitative information regarding

exposure to risk shall be based on information provided internally to key management personnel of the insurer and provide information about the risk management techniques and methodologies applied by the insurer. We believe these proposed disclosure requirements would force us to disclose proprietary information.

Additional Question for Respondents

32. After considering your views on the specific issues contained in this Discussion Paper and the IASB's Exposure Draft, what do you think would represent the most appropriate improvement to U.S. GAAP?

- a) Pursue an approach based on the IASB's Exposure Draft?
- b) Pursue an approach based on the IASB's Exposure Draft with some changes? Please explain those changes.
- c) Pursue an approach based on the Board's preliminary views in this Discussion Paper?
- d) Pursue an approach based on the Board's preliminary views in this Discussion Paper with some changes? Please explain those changes.
- e) Make targeted changes to address specific concerns about current U.S. GAAP (for example, items included in paragraph 7)? Please describe those changes.

We prefer option "e". We appreciate the history and amount of thought that has been put into the current U.S. GAAP guidance. We believe that, under the current U.S. standards, preparers are able to complete a high quality set of financial statements in a timely and accurate manner. However, we do have the following recommendations to improve and simplify current U.S. GAAP.

- Require insurance contracts issued by non-insurance companies to follow insurance accounting standards.
- To improve the measurement and add transparency, the Board should consider adopting a building block approach that reflects current estimates of cash flows with reasonable margins for adverse deviation and a discount rate that reflects the expected asset portfolio rate.
- Improved disclosure regarding the Company's sources of earnings would be of value to the users of the financial statements.

However, if option "e" is not selected, we would then prefer option (d) with the changes we noted in our responses. Additionally, we are concerned with the costs associated with implementation as well as the practical issues in implementing and maintaining this new accounting guidance outlined in the discussion paper. We expect the work effort and associated costs to be significant. We believe that additional field testing is needed to help ensure that the new guidance is operational. Therefore, at a minimum we recommend that an implementation time frame of 5-7 years.