



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

May 15, 2013

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**RE: (File Reference No. 2013-220)  
Recognition and Measurement of Financial Assets and Financial Liabilities**

Dear Ms. Cospers:

Erie Indemnity Company (“Erie Indemnity”) appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities* (“the Proposal”).

Erie Indemnity is a publicly held corporation that since 1925 has been the managing Attorney-in-Fact for the subscribers of Erie Insurance Exchange, a subscriber owned reciprocal insurer that writes property and casualty insurance. Erie Indemnity has an investment portfolio of approximately \$13 billion, which includes an alternative investment portfolio in excess of \$1 billion invested across over 100 different funds containing over 1,100 underlying investments.

We support the Financial Accounting Standards Board’s (“FASB’s”) decision to address the classification and measurement of financial instruments on a comprehensive scale. However, we believe the criteria provided for classification as a held for sale equity investment in the proposed changes to Accounting Standards Codification Topic 323, *Investments – Equity Method and Joint Ventures* (“ASC 323”) is vague and may have unintended consequences for equity investments such as limited partnerships. Equity method investments have traditionally been considered separately from other types of financial instruments due to their unique structures, and the current equity method of accounting appropriately considers the circumstances of these particular investments. Further, the inability of the investee to provide timely fair value information makes this proposal inoperable under current ASC Topic 820, *Fair Value Measurements* (“ASC 820”) guidance which requires measurement as of the investor’s reporting date.

We request that the FASB remove the equity method accounting revisions as a component of the Proposal. If such revisions are not removed, we respectfully request incorporating guidance in ASC 820 to permit an entity to use an investee’s most recent available financial statements as an estimate of fair value consistent with previous ASC 323 equity method guidance.

We have included our response to Question No. 34 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 (814) 870-7186.

Sincerely,

A handwritten signature in black ink that reads "Marcia A. Dall". The signature is written in a cursive, flowing style.

Marcia A. Dall  
Executive Vice President and Chief Financial Officer  
Erie Indemnity Company

## Appendix A

**Question 34:** *The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments – Equity Method and Joint Ventures – Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?*

We disagree with the proposal to amend Accounting Standards Codification Topic 323, *Investments – Equity Method and Joint Ventures* (“ASC 323”) to exclude equity investments which meet the proposed held for sale classification from current equity method accounting guidance and require those investments to be recorded at fair value with changes in fair value recognized in net income (“FV-NI”).

The proposed guidance in ASC 323-10-15-20 which provides the indicators that must be present to classify an equity investment as held for sale is vague and, we believe, may have unintended consequences for equity investments such as the types of limited partnership investments that are included in our portfolio.

Limited partnership investments are typically limited life entities with a stated investment objective for the investor. However, these partnerships are frequently comprised of numerous underlying investments for which the limited partner investor has no control over the exit strategy or timing of disposal. Using the broad criteria in the proposed ASC 323-10-15-20 guidance due to the typical limited life, a limited partnership may be classified as held for sale as the investor has identified potential exit strategies and circumstances in which it expects to exit the overall investment. Under the Proposal, the limited partnership investment would then be required to be measured at FV-NI (or at cost less impairment and adjustments for observable prices under the practicability exemption, if applicable). The inability of the investee to provide timely fair value information would make this guidance inoperable.

The current equity method guidance in ASC 323 permits a consistent lag while the current fair value guidance in ASC Topic 820, *Fair Value Measurements* (“ASC 820”) requires investments to be reported at fair value as of the investor’s reporting date. The general partners responsible for reporting the limited partnership results are typically not able to supply fair value information as provided through their limited partnership financial statements in time to meet the filing deadlines of a large accelerated filer.

Consideration has been given to estimating the activity between the most recent financial statements and the current reporting date. However, we do not feel that any estimates would provide reliable, accurate, or meaningful information in most scenarios for the following reasons:

- a) Estimates of earnings and changes in the fair value from the limited partnerships for the current quarter’s activities are generally not available within the time requirements to meet financial statement filing deadlines. The processes and procedures used by the general partner require a substantial amount of time and effort in order to provide a reliable fair value. Any estimates provided by the partnership could be substantially different from the ultimate fair values.
- b) Fair value estimates obtained from the general partners of these investments could not be easily substantiated by a reporting entity’s personnel to ensure accuracy of the estimate.
- c) The use of publically traded indices as an estimate of the change in value over the measurement period is not appropriate given the low correlation of limited partnerships to public markets, especially when considering valuation changes in short-term situations such as quarterly reporting periods. In addition, the identification of applicable benchmark indices to use as an estimation technique is difficult and unreliable.

- d) Estimates involve significant judgments that could lead to diversity in practice and reduce comparability of results among companies, resulting in less meaningful information for financial statement users.

We believe the most relevant, meaningful and accurate information for users of the financial statements are the fair values from the limited partnership's most recently available financial statement, reported on a lag. Any lag should be consistently applied and clearly disclosed in the financial statements.

The current accounting guidance in ASC 323 permits that if the financial statements of an investee are not sufficiently timely for an investor to apply the equity method currently, the investor ordinarily shall record its share of the earnings or losses of an investee from the most recent available financial statements (ASC 323-10-35-6). If the proposed changes to the equity method are not removed from the Proposal, we respectfully request that similar language be incorporated into ASC 820 if limited partnerships previously reported under the equity method will now be reported at fair value as a result of this change.

We propose the following change to ASC 820 (as underlined and in bold):

**820-10-35-59:** A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.

**820-10-35-60:** If the net asset value per share of the investment obtained from the investee is not as of the reporting entity's measurement date or is not calculated in a manner consistent with the measurement principles of Topic 946, the reporting entity shall consider whether an adjustment to the most recent net asset value per share is necessary. **The investor may conclude the net asset value per share from the investee's most recent available financial statement represents the best estimate of fair value for the investment. If this is the case, the investor shall record the net asset value per share from the investee's most recent available financial statement. A lag in reporting shall be consistent from period to period.** The objective of any adjustment is to estimate a net asset value per share for the investment that is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.