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Technical Director - File Reference No. 2013-290
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EMC Insurance
Group Inc.

EMCASCO
Insurance Company

EMC Reinsurance
Company

Illinois EMCASCO
Insurance Company

Dakota Fire
Insurance Company

EMC Property &
Casualty Company

Union Insurance
Company of
Providence

Hamilton Mutual
Insurance Company

EMC Risk Services, LLC

EMC Underwriters, LLC

EMC National Life
Company (affiliate)

Exposure Draft - Insurance Contracts (Topic 834)

EMC Insurance Companies (EMC) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB) Exposure Draft - Insurance Contracts (Topic 834) (ED) issued June 27, 2013. EMC is a U.S. based property and casualty (P&C) insurance group consisting of Employers Mutual Casualty Company and six other affiliated direct writers, and an assumed reinsurance company. As a group, EMC has annual net premium writings of approximately \$1.3 billion and is licensed to write in all fifty states and the District of Columbia. The reinsurance company assumes both U.S. domestic and global property and casualty exposures. Employers Mutual Casualty Company has majority ownership of a downstream stock holding company, EMC Insurance Group Inc., which is made up of the reinsurance company and three of the affiliated direct writers. The company has meticulously reviewed the ED and has obtained feedback from a number of constituents. The comments in this letter are directed specifically to the impact of the ED on short-duration property and casualty insurance contracts.

EMC very strongly urges FASB to not adopt the proposed guidance as it not an improvement over the current guidance for short-duration contracts. In fact, EMC believes the complexity of the proposed guidance significantly degrades decision useful information to the point of deterring capital investment in the property and casualty insurance industry. Further, the proposed guidance would directly hinder company operations by appropriating management's ability to make prudent risk management decisions addressing the uncertainty of estimated claim liabilities, and would increase solvency risk by mandating that minimally adequate reserves be carried.

EMC has many serious misgivings about the ED, but the overriding concern is the fear that the ED's complexity will drive capital out of the market. Analysts who cover the insurance industry have communicated to the company their opinion that financial statements would become unintelligible if the proposed standard is adopted. Having extensively reviewed the ED, the company agrees with that conclusion. The application of so called "fair value" accounting principles in the proposed standard does not appear to accomplish the Board's objectives of increasing the decision usefulness of insurance company financial statement information, nor does it appear to increase comparability across contract issuing entities. The company also notes that the ED is not at all reflective of actual P&C insurance operations and would provide much less and very inconsistent information to users concerning the company's current and future profitability.

In addition to the fear of capital flight, EMC is very disturbed by the change in company business operations/focus and the potential increase in costs that would result from a widening divergence of GAAP and statutory accounting. The ED's proposed liability measurement (unbiased, probability-weighted cash flows) is at odds with the regulatory regime under which the U.S. property and casualty insurance industry operates and is not consistent with how rating agencies, such as A.M. Best Company, prefer to see



entities manage risk. The ED's measurement target under the Premium Allocation Approach does not allow for the consideration of uncertainty in projected outcomes. The company interprets the guidance as advocating less adequate loss reserves and would force EMC to change its reserving philosophy. As inadequate loss reserves are a well known cause of insurance company insolvencies (A.M. Best), the industry, and EMC, would face the potential for increased solvency risk and greater guaranty fund assessments if insolvency rates were to increase.

EMC's auditors have informed the company that should the ED be adopted, the methodology the company has used for decades to calculate the Incurred but Not Reported (IBNR) reserve and allocate it to the various accident years would no longer be acceptable. The company's methodology, which produces the "booked" reserves, contains explicit and implicit assumptions which are updated annually in a time consuming, rigorous review. The methodology is tested for reasonableness each quarter, but has no real means of being verified as an unbiased probability-weighted estimate and is not amenable to producing cash flow patterns. As a result, the ED would force a complete change in company reserving methodology. The company believes the fact that the proposed guidance precludes the use of time tested actuarial reserving procedures is an extreme accounting regulatory overreach. Very significant accounting, actuarial and data processing resources would have to be committed to build a reserving system capable of implementing the unbiased probability-weighted discounted fulfillment cash flows measurement requirements advocated in the ED. The expense required to implement and maintain accounting, actuarial and data processing systems and procedures compliant with the ED is difficult to estimate, but would be very significant and would be in addition to maintaining current statutory reporting systems and procedures.

The company addresses particular issues associated with the proposed guidance in the attached responses to the ED's questions. However, the company believes the ED's fatal flaw is the requirement to discount cash flows. This is the one item that significantly lessens the value of any information which may be produced under the proposed guidance, and would produce "unintelligible" financial statements as insurance industry analysts have observed. The primary reason why discounting should not be applied to the cash flows of short-duration contracts is that the required estimation of cash flow patterns would interject more variance and uncertainty than that associated with estimating the ultimate nominal losses. If cash flows were certain and invariable, discounting may be reasonable depending upon the "goal" of the discounted measure (which would determine the discount rate). The timing of cash flows associated with P&C insurance contracts exhibit significant variability, and the application of discounting (with the requirement to continuously update expected cash flow patterns) can and would produce very inconsistent liability estimates from quarter to quarter. The company has been informed by insurance industry analysts that if they desire to view discounted earnings results, they prefer to use nominal liability estimates and apply their own discount rate and assumptions, rather than have them built into the company's liability estimates.

In closing, EMC notes that the current guidance for short-duration contracts has performed very well over an extended period of time and through various economic and insurance cycles. The current guidance and its associated disclosures are well understood and accepted by both preparers and users of insurance company financial statements. The current guidance provides clarity and comparability, while the ED's guidance would produce ambiguity and disparity. The current guidance also preserves a close relationship with statutory accounting, while the ED's guidance creates a completely unrelated accounting measure. Additionally, there is a rich history of

earnings information available for which decision useful metrics have been developed under the current guidance. Having no such history and not having received the confidence or the backing of the investment community, the proposed guidance could seriously disrupt capital investment in the property and casualty insurance industry. ***Again, EMC very strongly urges FASB to not adopt the proposed guidance and to retain the current guidance for short-duration contracts.***



Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Reese", with a long, sweeping horizontal line extending to the right.

Mark E. Reese
SVP - Chief Financial Officer
Employers Mutual Casualty Company



Questions for All Respondents

Question 1: Do you agree with the scope and scope exceptions of this proposed guidance, including its applicability to contracts written by noninsurance entities? If not, what types of contracts or transactions also should be included or excluded from the scope and why?

As EMC views the proposed guidance as inferior to the current guidance for short-duration contracts, it is recommended that issuers of short-duration contracts be excluded from the scope of the proposed guidance. The proposed guidance dramatically increases the complexity of financial statement preparation/interpretation while decreasing the decision usefulness of the reported information and the comparability of results across issuers of short-duration contracts. The current guidance for short-duration contracts should be retained as it is superior in every respect to that contained in the exposure draft.

Recognition

Questions for All Respondents

Question 2: Do you agree with the requirements included in this proposed Update for when noninsurance components of an insurance contract, including embedded derivatives, distinct investment components, and distinct performance obligations to provide goods or services, should be separately accounted for under other applicable Topics? If not, why?

The company has no comment on this issue.

Initial and Subsequent Measurement

Questions for Users

Question 3: Will the proposed measurement model produce relevant information that will help users of an entity's financial statements make economic decisions? If not, what changes do you recommend and why?

EMC has been informed by insurance industry analysts that the proposed measurement model will produce far less relevant information than the current guidance for short-duration contracts. One investment entity expressed the concern that in five years the industry may be "... stuck with unusual accounting and stocks that nobody wants to own."

EMC agrees with these insurance industry analysts that the current measurement model is superior to the proposed measurement model in providing relevant information, as the company uses competitors' financial statements to assist in benchmarking company performance. EMC believes the proposed measurement model's requirement to calculate P&C liabilities by discounting uncertain cash flows is the primary cause of the diminution of decision useful information. The company believes that while value may be added by recognizing the time value of money on certain cash flows, value is very much diluted when performing a discounting exercise on the variable and uncertain cash flows associated with property and casualty insurance contracts. The company would recommend retaining the current nominal measurement model and providing enough information so that interested parties could perform their own discounting exercise with their own unique assumptions, making the resulting information of value to that user. Perhaps adding the statutory Schedule P as a disclosure would be the proper information to provide users to aid in this exercise. Additionally, such a move would improve comparability over the proposed



measurement model as the possibility of entities creating a variety of incomparable "portfolios" would be avoided.

EMC also takes issue with establishing the measurement objective stated in 834-10-55-54 as the "expected value, or statistical mean of the full range of possible outcomes." The company contends that such an objective, if even possible for property and casualty insurance, provides little relevant information concerning company operations with respect to management's ability to manage risk. This measurement objective, in fact, decreases management's ability to manage risk and apply prudent enterprise risk management procedures. EMC recommends that the measurement objective contained in the current guidance for short-duration contracts be retained.

EMC believes the concept of creating and measuring liabilities for "portfolios of insurance contracts" will produce less relevant information about an entity's performance and will impair the ability to compare performance between entities. Although some restrictions on portfolio construction are proposed, it is likely that the number and type of portfolios created will vary widely between entities and are not likely to reflect the manner in which an entity actually manages its business. The concept of aggregating, reporting and discounting cash flows of "portfolios of contracts" is not compatible with the standard industry practice of aggregating premiums and losses by calendar-accident year because the later approach does not align cash flows from identical contracts. The portfolio concept would add additional administrative and reporting burdens. EMC believes more relevant information is provided under the current business segment reporting guidance, where business segments are grouped and reported consistent with an entity's manner of acquiring, servicing and measuring profitability of the underlying business.

Question 4: Which aspects of the proposed measurement model most significantly improve the information that will be used in making economic decisions and why?

EMC is unable to identify any aspect of the proposed measurement model which would improve the information that will be used in making economic decisions as compared to current guidance on short-duration contracts. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Measurement Approaches

Questions for All Respondents

Question 5: Do you agree that entities should apply different approaches to contracts with different characteristics, described as the building block approach and the premium allocation approach? If not, which model do you think should apply and do you think there should be any changes made to that model?

EMC agrees that entities should apply different approaches to contracts with different characteristics. However, EMC believes that neither the building block approach nor the premium allocation approach is a suitable accounting model for measuring the liabilities of short-duration contracts. The building block approach was created to reflect the economics and operations associated with long-duration contracts. It appears the premium allocation approach is an attempt to "fit" accounting measurements of short-duration contracts into the same general approach as that for long-duration contracts. Since the economics and operations of short-duration contracts are very dissimilar to long-duration contracts, this is rather like trying to "fit" a square peg into a round hole. Neither approach should be used for short-duration contracts.

EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts as it is a far better representation of the economics and operations



associated with insurance entities, is time tested and accepted by all constituents, and provides users with far superior information than either of the proposed approaches.

Question 6: Do you agree that entities should be required to apply the premium allocation approach if the coverage period of the insurance contract, considering the contract boundary guidance, is one year or less? If not, what would you recommend and why?

EMC does not agree that either the premium allocation approach or the building block approach should apply to short-duration contracts as neither are representative of the economics and operations associated with such contracts. If applied to short-duration contracts, both approaches would produce less decision useful information and impair comparability across entities due to the requirements to (1) discount uncertain cash flows with subjective and ambiguous discount rates, and (2) group contracts into portfolios which are not reflective of how they are acquired, serviced, or managed.

EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts as it is a far better representation of the economics and operations associated with insurance entities, is time tested and accepted by all constituents, and provides users with far superior information than either of the proposed approaches.

Question 7: Do you agree that entities should be required to apply the premium allocation approach if, at contract inception, it is unlikely that during the period before a claim is incurred there will be significant variability in the expected value of the net cash flows required to fulfill the contract? If not, what do you recommend and why?

EMC does not agree that either the premium allocation approach or the building block approach should apply to short-duration contracts as neither are representative of the economics and operations associated with such contracts. If applied to short-duration contracts, both approaches would produce less decision useful information and impair comparability across entities due to the requirements to (1) discount uncertain cash flows with subjective and ambiguous discount rates, and (2) group contracts into portfolios which are not reflective of how they are acquired, serviced, or managed.

EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts as it is a far better representation of the economics and operations associated with insurance entities, is time tested and accepted by all constituents, and provides users with far superior information than either of the proposed approaches.

Portfolio and Contract Boundary

Questions for Preparers and Auditors

Question 8: Do you agree with the definition of a portfolio of insurance contracts as included in this proposed Update? If not, what do you recommend and why?

EMC believes that while the definition of a portfolio of insurance contracts is acceptable, the portfolio concept itself will impair comparability, is problematic to apply, is not representative of how issuers of short-duration contracts group business segments for management/profitability measurement, and would be administratively burdensome to maintain. Despite the proposed restrictions on portfolio construction, it is very likely that entities would create a wide variety of portfolios having various degrees of granularity (type of coverage, geographic region, etc). The creation of portfolios and the discounting of cash flows would be problematic in application because the property and casualty insurance industry's standard calendar-accident year grouping of premiums and losses would not match the cash flows that would be generated by identical contracts. Issuers of short-duration contracts typically manage



and measure the performance of business segments, which group several different types of contracts. Finally, creating and managing systems and procedures to perform aggregations by portfolio along with all the associated discounting calculations would significantly increase administration costs.

EMC believes that requiring issuers of short-duration contracts to aggregate insurance contracts by portfolio provides users with inferior information to the current segment reporting approach, which groups contracts by the manner in which they are managed and measured. For this reason, EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Question 9: Do you agree with the requirements included in this proposed Update on contract boundary (that is, the requirements that establish how to identify the future cash flows that will arise as the insurer fulfills its obligations)? If not, what do you recommend and why?

As elaborated upon in Questions (3) and (15), EMC does not agree with the measurement of short-duration contract liabilities on a discounted cash flow basis. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Fulfillment Cash Flows

Questions for Preparers and Auditors

Question 10: Do you agree with the types of cash flows that would be included in the measurement of the fulfillment cash flows, including embedded options and guarantees related to the insurance coverage under existing insurance contracts that are not separated and accounted for as embedded derivatives? If not, what cash flows do you think also should be included or excluded and why?

As elaborated upon in Questions (3) and (15), EMC does not agree with the measurement of short-duration contract liabilities on a discounted cash flow basis. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Question 11: Do you agree that the assumptions used in the measurement of the fulfillment cash flows should be updated each reporting period? If not, what do you recommend and why?

As elaborated upon in Questions (3) and (15), EMC does not agree with the measurement of short-duration contract liabilities on a discounted cash flow basis. The company believes the requirement to discount uncertain cash flows and the necessary obligation to continuously update objective and subjective assumptions would significantly erode the decision usefulness of insurance company financial statement information and significantly increase costs to preparers. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Question 12: Do you agree that the fulfillment cash flows for contracts measured using the building block approach and the liability for incurred claims for contracts measured using the premium allocation approach should be based on an explicit, unbiased, and probability-weighted estimate (that is, the mean) of the future cash flows, as of the reporting date, expected to arise as the entity fulfills the contract, adjusted to reflect any contractual linkage between the contract and any underlying assets? If not, what do you recommend and why?



EMC does not agree "that the fulfillment cash flows for contracts measured using the premium allocation approach should be based on an explicit, unbiased, and probability-weighted estimate (that is, the mean) of future cash flows." It is not actuarially sound to ignore the risk of potentially significant negative outcomes when estimating claims reserves. Further, targeting the "mean" with no explicit or implicit recognition of uncertainty is not consistent with statutory accounting's admonishment to "follow the concept of conservatism" in SSAP 55. Appointed actuaries who sign insurance companies' statements of actuarial opinion on loss and loss adjustment expense reserves, state insurance regulators and insurance rating agencies, like A.M. Best, generally prefer reserves to be somewhat stronger than merely borderline adequate, which is what the mean represents. Emerging enterprise risk management models, which assist entities in managing and adjusting their risk profiles, may well produce optimal enterprise liability estimates greater than the mean.

It is well known throughout the property and casualty insurance industry that inadequate loss reserves are the leading cause of insurer insolvency (A.M. Best). Sound loss reserving, which recognizes the uncertainty associated with estimated outcomes, promotes solvency, and is important to insurance consumers. Because it is important to consumers, it is also important to investors because without confidence in the insurance market, there would be no market. As an aside, according to A.M. Best's 2012 estimate, the property and casualty insurance industry's asbestos loss reserves are underfunded by \$10 billion. Mass tort liabilities such as asbestos are extremely difficult to estimate and there is no widely accepted methodology that has proven capable of estimating an expected ultimate loss (A.M. Best has increased its own estimate many times). With uncertainties such as these, it would be dangerous to impose a requirement that the "unbiased mean" liability estimate be targeted.

EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts and very strongly recommends that the target liability estimate for short-duration contracts remain consistent with statutory accounting. To completely break the link between statutory and GAAP accounting by adopting a different target would significantly dilute the meaningfulness of GAAP financial statements and create a costly and burdensome audit environment.

Questions for All Respondents

Question 13: Do you agree with the approach in this proposed Update to recognize changes in estimates of cash flows (other than the effect of changes in the liability arising from changes in the discount rates) in net income in the reporting period? If not, what do you recommend and why?

If the proposed guidance were to be adopted, the company believes entities should be given the option of recognizing the impact of changes in discount rates in either net income or other comprehensive income (OCI) as the cost and administrative difficulty associated with performing the OCI reconciliation may exceed any benefit gained by doing so. However, as elaborated upon in Questions (3) and (15), EMC does not agree with the measurement of short-duration contract liabilities on a discounted cash flow basis. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Discount Rates and Discounting

Questions for All Respondents



Question 14: Do you agree that the discount rates used by the entity for nonparticipating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability? Why or why not?

The company has no comment on this issue.

Question 15: For contracts measured using the premium allocation approach, do you agree that an entity should discount the liability for incurred claims? Do you agree that an entity should be allowed to elect not to discount portfolios when the incurred claims are expected to be paid within one year of the insured event? Why or why not? If not, what would you recommend and why?

EMC does not agree that an issuer of short-duration contracts should discount the liability for incurred claims under any circumstances other than when the payout pattern is known with certainty. The requirement to discount uncertain cash flows for short-duration contracts would significantly decrease the availability of decision useful information and the comparability of financial information across contract issuing entities relative to the current standard, and would likely produce "unintelligible" financial statements as insurance industry analysts have observed. The company is very concerned that this requirement may result in an exodus of capital from the property and casualty insurance sector because the complexity of financial statements would erode the confidence of potential investors.

Current guidance for reporting nominal insurance liabilities requires measurements and assumptions based on two variables; the occurrence of an insured event and the ultimate loss (if any) associated with the event. The proposed measurement model adds a third parameter to the estimate; the timing of the payout (if any) associated with the insured event. Property and casualty insurance payout patterns exhibit variation in both the timing and amounts of loss and loss adjustment expense payments. The variation is even greater for property and casualty reinsurance contracts. The resulting "discounted" liability estimate will be less accurate than the current nominal estimate of ultimate incurred loss, and hence, liability.

Basis for Conclusion (BC) 346 states that the uncertainty surrounding the occurrence of an insured event and the ultimate settlement amount "... does not relate to including the time value of money in the measurement of the liability for incurred claims." The company would like to point out that in order to discount the liability for incurred claims, both an "estimated" ultimate loss and an "estimated" payout pattern are required. The variation associated with these "estimates" certainly does relate to including the time value of money in the measurement of the liability for incurred claims precisely because these estimates are required to perform the discounting exercise.

BC 346 goes on to state that "... other industries also are required to reflect the time value of money in the measurement of their liabilities. The Board decided that an exception should not be made for a sector of the insurance industry, especially if the effect of discounting could be more material than in other industries." EMC would like to point out that the loss and loss adjustment expense payout patterns associated with property and casualty insurance contracts exhibit far more uncertainty in timing and amount than the cash flows of just about any other imaginable industry. Because the resulting error in the measurement of liabilities by applying discounting to uncertain cash flows is likely to be more material than the current nominal liability estimates, an exception from the requirement of reflecting the time value of money is warranted for short-duration contracts. The company is aware of and agrees with the Board's axiom that "money has a time value...", however, the application of discounting to uncertain cash flows reduces, rather than enhances, the availability of decision useful



information. The Board's objective for the proposed standard to improve decision useful information must take precedence over the time value of money axiom.

EMC also notes that discount rate selection, as well as the rate itself, will inhibit comparability across entities and would be ambiguous as to the meaning of the resulting liability estimates. The proposed guidance allows the option for a top down or bottom up approach to determine the discount rate, with the apparent target being the risk-free rate plus some type of liquidity adjustment. This option would produce diversity in practice, and would erode the comparability of results across entities. However, even if some specific rate or yield curve were to be mandated, the meaning of the resulting estimates would be extremely vague. It is unlikely that the estimates would represent the value of the entity or the underlying portfolios, and there would be no liquid market for either. It appears that the property and casualty insurance industry would be required to discount liabilities for the sake of discounting, not because there would be any real meaning to the resulting estimates. It would be far better to provide users of the financial statements with enough information that they could perform their own discounting exercise, rather than have meaningless and incomparable estimates appear in the financial statements.

EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts and that the liability for incurred claims be calculated on an undiscounted "nominal" basis.

Question 16: Do you agree that an entity should segregate the effects of underwriting performance from the effects of changes in discount rates (which would reverse over time) by recognizing changes in the present value of the fulfillment cash flows due to changes in the discount rates in other comprehensive income? If not, do you think that the effect of changes in the discount rates should be presented in net income? Please explain your reasoning.

If the proposed guidance were to be adopted, the company believes entities should be given the option of recognizing the impact of changes in discount rates in either net income or other comprehensive income (OCI), as the cost and administrative difficulty associated with performing the OCI reconciliation may exceed any benefit gained by doing so. However, as elaborated upon in Questions (3) and (15), EMC does not agree with the measurement of short-duration contract liabilities on a discounted cash flow basis. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Question 17: Because the proposed guidance includes the approach under which changes in the insurance liability arising from changes in the discount rates should be recorded in other comprehensive income, do you think that a test should be required to trigger recognition in net income of some or all of the amounts in accumulated other comprehensive income (that is, a loss recognition test based on asset-liability mismatches)? Why or why not?

The company has no comment on this issue.

Questions for Preparers and Auditors

Question 18: Do you agree that the method for calculating the discount rates should not be prescribed? Is the proposed guidance on determining the discount rates understandable and operable? If not, what do you recommend?

As elaborated upon in Questions (3) and (15), EMC does not agree with the measurement of short-duration contract liabilities on a discounted cash flow basis. The company believes the requirement to discount uncertain cash flows will significantly



erode the decision usefulness of insurance company financial statement information, significantly increase costs to preparers, and may well result in an exodus of capital from the property and casualty insurance sector. Whether prescribed or determined per the proposed guidance, it is *ambiguous as to what the discount rate would really represent*. It is very likely not the rate that would be used to value an entity and it would be fairly meaningless in valuing portfolios as there is no liquid market for short-duration contract liabilities. It would appear to be discounting for the sake of discounting, not because there would be any particular meaning to the resulting discounted values. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Question 19: Do you agree that interest expense generally should be based on the discount rates determined at the date the portfolio of contracts was initially recognized? Why or why not? If not, what do you recommend?

As elaborated upon in Questions (3), (15) and (18), EMC does not agree with the measurement of short-duration contract liabilities on a discounted cash flow basis. The company believes the requirement to discount uncertain cash flows will significantly erode the decision usefulness of insurance company financial statement information, significantly increase costs to preparers, and may well result in an exodus of capital from the property and casualty insurance sector. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Question 20: Do you agree that upon any change in expectations of the crediting rates used to measure the insurance contract liability for insurance contracts with discretionary participation features, the interest accretion rates should be reset in a manner that recognizes any changes in estimated interest crediting and related expected cash flows on a level-yield basis over the remaining life of the contracts? If not, what do you recommend?

The company has no comment on this issue.

Margin for Contracts Measured Using the Building Block Approach

Questions for All Respondents

Question 21: Do you agree that an insurer should not recognize a gain at initial recognition of an insurance contract (such a gain would arise when the expected present value of the cash outflows is less than the expected present value of the cash inflows) but, rather, should defer that amount as profit to be recognized in the future? Why or why not?

The company has no comment on this issue.

Question 22: Do you support using a one-margin approach, as is included in this proposed guidance, or an explicit risk adjustment and a contractual service margin (as the IASB proposes)? Please explain the reason(s) for your view.

The company has no comment on this issue.



Question 23: If you support a risk adjustment and a contractual service margin, do you agree with the IASB's approach to adjust the contractual service margin for changes in estimates of cash flows? Why or why not? Do you agree with the IASB's approach to not specify acceptable approaches to determine the risk adjustment? Why or why not?

The company has no comment on this issue.

Question 24: Do you agree that a loss at initial recognition of a portfolio of insurance contracts should be recognized immediately in net income (such a loss would arise when the expected present value of the cash outflows exceeds the expected present value of cash inflows)? Why or why not?

The company has no comment on this issue.

Questions for Preparers and Auditors

Question 25: Do you agree with the proposed method(s) of recognizing the margin (that is, as the entity is released from risk under the insurance contracts as evidenced by a reduction in the variability of cash outflows)? If not, what do you suggest and why?

The company has no comment on this issue.

Question 26: Do you agree that interest should be accreted on the margin and therefore affect insurance contract revenue? If not, why?

The company has no comment on this issue.

Question 27: Do you agree that if the expected cash outflows (including qualifying acquisition costs) of a portfolio of insurance contracts will exceed the expected cash inflows, an entity should recognize the remaining margin immediately in net income? Why or why not?

The company has no comment on this issue.

Acquisition Costs

Questions for Preparers and Auditors

Question 28: Do you agree that the direct acquisition costs presented with the margin should include only the costs directly related to the entity's selling efforts that result in obtaining the contracts in the portfolio and that all other acquisition costs should be recognized as expenses when incurred? If not, what do you recommend and why?

The company has no comment on this issue.

Question 29: Do you agree that the measurement of the margin for contracts measured using the building block approach and the liability for remaining coverage for contracts measured using the premium allocation approach should be reduced for direct acquisition costs incurred? If not, what do you recommend?

The company has no comment on this issue.



Question 30: Do you agree that an entity should recognize acquisition costs as an expense in net income in the same pattern that it recognizes the margin for contracts measured using the building block approach or in the same pattern that it reduces the liability for remaining coverage under the premium allocation approach? If not, why not?

The company has no comment on this issue.

Insurance Contract Revenue

Questions for All Respondents

Question 31: Do you agree that users of financial statements would obtain relevant information that faithfully represents the entity's financial position and performance if, in net income, for all insurance contracts, an entity presents insurance contract revenue and incurred expenses, rather than only information about changes in margins (that is, the net profit)? If not, why not?

EMC agrees that users of financial statements do obtain relevant information that faithfully represents the entity's financial position and performance when insurance contract revenue and incurred expenses appear in net income. EMC believes the current GAAP income statement, balance sheet and associated disclosures for short-duration contracts provide superior decision useful information than that described in the proposed guidance. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Question 32: Do you agree that, for all contracts, revenue should exclude any amounts received that an entity is obligated to pay to policyholders or their beneficiaries regardless of whether an insured event occurs and that expenses should exclude the corresponding repayment of those amounts? If not, what do you recommend? Please specify whether your view depends on the type of contract.

EMC does not believe revenue should exclude amounts received that an entity is obligated to pay to policyholders or their beneficiaries regardless of whether an insured event occurs and that expenses should exclude the corresponding repayment of those amounts, as this would unnecessarily complicate the treatment of policyholder dividends for property and casualty insurance companies and not significantly enhance decision useful information. As elaborated upon in Questions (3), (15) and (18), EMC does not agree with the measurement of short-duration contract liabilities on a discounted cash flow basis. The company believes the requirement to discount uncertain cash flows will significantly erode the decision usefulness of insurance company financial statement information, significantly increase costs to preparers, and may well result in an exodus of capital from the property and casualty insurance sector. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Question 33: For contracts measured using the premium allocation approach, do you agree that if the contract has a financing component that is significant to the contract, an entity should adjust the liability for remaining coverage to reflect the time value of money and recognize the accretion of interest with insurance revenue? Do you agree with the practical expedient that an entity should not be required to reflect the time value of money in measuring the liability for remaining coverage (that is, if the entity expects, at contract inception, that the time period between when the policyholder pays



all or substantially all of the premium and when the entity provides the corresponding part of the coverage is one year or less)? If not, what do you recommend and why?

EMC agrees only with the practical expedient. The company does not agree with the premium allocation approach as a whole. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Questions for Preparers and Auditors

Question 34: For contracts measured using the building block approach, does this proposed Update contain sufficient guidance on how to determine insurance contract revenue in accordance with the principle that it should be allocated between reporting periods as performance obligations are satisfied over time (that is, to allocate consideration between periods by reference to the relative value of the services provided in each period)? If not, explain what additional guidance is necessary.

The company has no comment on this issue.

Participating Contracts

Questions for Preparers and Auditors

Question 35: Do you agree that participation features that are contractually dependent on the performance of other assets or liabilities of the insurer or the performance of the entity itself should be measured on the same basis used to measure the underlying items and changes in the measurement should be presented in the same statements (that is, net income or other comprehensive income)? Do you agree that this approach should be limited to only participating features for which the amount of the performance of the underlying items passed through to policyholders is contractually determined and not extended to participating features that allow an entity discretion about the amount of the performance of the underlying item to pass through to the policyholders? If not, what do you recommend and why?

The company has no comment on this issue.

Reinsurance

Questions for All Respondents

Question 36: Do you agree that a cedant should record a margin if the expected present value of the cedant's future cash inflows exceed the expected present value of the cedant's future cash outflows (thus prohibiting the recognition of a gain at inception upon entering into a reinsurance arrangement) for (a) retrospective reinsurance contracts accounted for using either the building block approach or the premium allocation approach and (b) prospective reinsurance contracts accounted for using the building block approach? If not, what do you recommend and why?

The company has no comment on this issue.

Questions for Preparers and Auditors

Question 37: Do you agree that a cedant should estimate the fulfillment cash flows (including the ceded premium) for a reinsurance contract using assumptions consistent with those used to measure the corresponding fulfillment cash flows for the underlying



insurance contract or contracts, without reference to the margin on the underlying contracts? If not, what would you recommend and why?

EMC believes cedants of short-duration contracts should estimate liabilities in accordance with current GAAP accounting standards. As elaborated upon in Questions (3), (15) and (18), EMC does not agree with the measurement of short-duration contract liabilities on a discounted cash flow basis. The company believes the requirement to discount uncertain cash flows will significantly erode the decision usefulness of insurance company financial statement information, significantly increase costs to preparers, and may well result in an exodus of capital from the property and casualty insurance sector. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Insurance Contracts Acquired in a Business Combination

Questions for All Respondents

Question 38: Do you agree that entities should record a loss at the acquisition date in the amount by which any excess of the asset and liability balances related to insurance contracts measured in accordance with the guidance in this proposed Update exceeds the fair value of those assets and liabilities? Do you agree that entities should record a margin (not an immediate gain) for the amount that the fair value of the asset and liability balances exceeds those assets and liabilities measured in accordance with the guidance in this proposed Update? If not, do you think an entity should instead increase or decrease goodwill for the differences between the fair value and the measurement in accordance with the guidance in this proposed Update on those assets and liabilities? Why or why not?

The company has no comment on this issue.

Contract Modifications

Questions for Preparers and Auditors

Question 39: Do you agree that for a substantial modification (a) an entity should recognize a gain or loss as the difference between the measurement of the modified contract using the current entity-specific price that the entity would hypothetically charge the policyholder for a contract equivalent to the new contract and the carrying amount of the existing contract and (b) that the carrying amount of the existing contract should be derecognized? If not, what do you recommend?

The company has no comment on this issue.

Presentation

Questions for All Respondents

Question 40: Do you agree with the presentation requirements included in this proposed Update? If not, what would you recommend and why?

EMC believes the presentation and disclosure requirements contained in the current guidance for short-duration contracts are superior to those contained in the proposed guidance. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.



Disclosure

Questions for All Respondents

Question 41: Do you agree with the disclosure requirements included in this proposed Update? If not, which disclosure requirement(s) would you change and why? Are there any additional disclosures that would provide decision-useful information and why? Do you think that any of the disclosure requirements included in this proposed Update would not provide decision-useful information and should not be required? If so, which ones and why?

EMC believes the disclosure requirements contained in the current guidance for short-duration contracts are superior to those contained in the proposed guidance. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Effective Date and Transition

Questions for Preparers and Auditors

Question 42: The Board will establish the effective date of the requirements when it issues the final amendments. However, the Board is interested in determining the key drivers affecting the timing of implementation. What are those key drivers? How do those drivers affect the time it will take to implement this proposed guidance?

EMC has identified 1) the measurement of short-duration contract insurance liabilities by discounting fulfillment cash flows and 2) identifying the measurement objective as the unbiased, probability-weighted mean, as the key drivers that would require the greatest allocation of resources, expense and time in order to be in a position to comply with the proposed guidance. A third related issue is the time, expense and resources required to identify, define, test and construct the "portfolios of contracts" to which the fulfillment cash flow measurement objectives would apply. The portfolio issue is not a trivial matter, especially since the traditional calendar-accident year approach to aggregating premiums and losses would not match the cash flows that would be generated by identical groups of contracts.

Systems are currently not in place to perform discounting, and there are no procedures in place to determine appropriate yield curves/discount rates. The "unbiased, probability-weighted mean" measurement objective will force the company to abandon a process used for decades to calculate and allocate the IBNR reserve to the various accident years, as the company's auditors have indicated it would be extremely difficult to prove the procedure is in compliance with the proposed standard. The adoption of the proposed standard would basically render most of the company's current reserving and reporting procedures unusable, and a completely new approach would have to be developed, documented and tested, with appropriate Sarbanes-Oxley control procedures put in place. Time would be required for more accountants, actuaries, investment relations and internal audit personnel to be hired and trained. The potential exists for the need to hire more data processing personnel as well. A six year transition period would not be an unreasonable estimate. If the requirement to measure the liabilities of short-duration contracts using a discounted fulfillment cash flow approach were eliminated, the implementation period could probably be reduced to three years.

EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Question 43: Do you think the effective date should be the same for both public and nonpublic entities? Do you think the effective date should be the same for regulated



insurance entities and other entities that issue insurance contracts within the scope of this proposed guidance? Why or why not?

First, EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts. Second, if the proposed guidance were to be adopted for short-duration contracts, the effective date should be established far enough into the future to ensure that all affected entities would be in a position to implement the changes simultaneously.

Question 44: Do you agree that the practical expedients relating to transition included in this proposed guidance are sufficient for retrospective application (that is, are the transition provisions in this proposed guidance operable)? If not, what would you recommend and why?

The company has no comment on this issue, other than to note that the best practical expedient to adopt in regard to short-duration contracts would be to retain the current GAAP guidance and exempt issuers of short-duration contracts from the scope of the proposed guidance.

Question 45: For business combinations that occurred before the transition date, is the requirement included in this proposed Update on reallocating the fair value of the asset and liability balances related to insurance contracts between the expected fulfillment cash flows and the margin operable? Why or why not? If not, what would you recommend and why?

The company has no comment on this issue.

Questions for Users and Auditors

Question 46: Do you agree that the proposed approach to transition would provide users of financial statements with relevant information that faithfully represents the entity's financial position and performance in a way that appropriately balances comparability with verifiability? Why or why not?

EMC does not agree that either the proposed approach to transition or the proposed guidance itself would provide users of financial statements with relevant information that faithfully represents the entity's financial position and performance in a way that appropriately balances comparability with verifiability. The company notes that the proposed guidance will render useless the rich history of earnings information developed under the current GAAP guidance for short-duration contracts. Not only would comparability with historic earnings data become worthless, comparability of performance between insurance entities would be materially degraded. If the requirement to measure the liabilities of short-duration contracts using a discounted fulfillment cash flow approach were eliminated, the comparability to historic data, the comparability between entities and the relevance of the financial information produced under the proposed guidance would begin to approach the same quality as found under the current GAAP guidance for short-duration contracts. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Costs and Complexities

Questions for Preparers



Question 47: Describe the nature of the incremental costs of adopting the guidance in this proposed Update, distinguishing between one-time costs and ongoing costs. Explain which aspects of the guidance in this proposed Update are driving those costs and include ideas to make the proposal more cost effective.

The company believes the greatest cost and threat posed by the proposed guidance is the possible flight of capital investment from the company and the property and casualty insurance industry due to overly complex accounting guidance and unintelligible financial statements. The requirement to discount the cash flows of short-duration contracts is the main driver of this issue and would be in itself the second greatest implementation and ongoing cost associated with the proposed guidance. As stated in Question (42), systems are currently not in place to perform discounting and there are no procedures in place to determine appropriate yield curves/discount rates. The "unbiased, probability-weighted mean" measurement objective will force the company to abandon a process used for decades to calculate and allocate the IBNR reserve to the various accident years, as the company's auditors have indicated it would be extremely difficult to prove the procedure is in compliance with the proposed standard. The adoption of the proposed standard would basically render most of the company's current reserving and reporting procedures unusable and a completely new approach would have to be developed, documented and tested, with appropriate Sarbanes-Oxley control procedures put in place. Time would be required for more accountants, actuaries, investment relations and internal audit personnel to be hired and trained. The potential exists for the need to hire more data processing personnel as well.

If the requirement to measure the liabilities of short-duration contracts using a discounted fulfillment cash flow approach were eliminated, the implementation and ongoing cost of the proposed guidance would be greatly reduced. EMC strongly recommends the retention of the current GAAP guidance for short-duration contracts.

Questions for Auditors

Question 48: Describe the nature of the incremental costs of auditing the financial reporting requirements included in this proposed Update, distinguishing between one-time and ongoing costs. Explain which aspects of the model in this proposed Update are driving those costs.

The company has no comment on this issue.
