FINANCIAL SERVICES ROUNDTABLE

1001 PENNSYLVANIA AVE., NW
SUITE 500 SOUTH
WASHINGTON, DC 20004
TEL 202-289-4322
FAX 202-628-2455

October 24, 2013

*Via Email to Director@FASB.org*

Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7,
P.O. Box 5116,
Norwalk, CT 06856-5116

**Re: Proposed Accounting Standards Update on Insurance Contracts (Topic 834)**

**File Reference No. 2013-290**

Dear Mr. Golden:

The Financial Services Roundtable welcomes the opportunity provided by the Financial Accounting Standards Board (the "FASB") to comment on its Proposed Accounting Standards Update on Insurance Contracts (Topic 834) as it relates to the Exposure Draft (the "ED"). along the lines that FSR is endorsing the P&C Coalition letter as described below. Thanks.

## I. The ED is Not an Improvement of Current U.S. GAAP for P&C Insurance Contracts

We do not believe the ED is an enhancement of current U.S. GAAP for the accounting and reporting of P&C insurance contracts. We note the existing accounting and reporting framework for P&C insurance contracts is time-tested, highly effective, preferred by investors and consistent with the P&C insurers' business model.

## II. The ED would Fundamentally Change U.S. GAAP for P&C Insurance Contracts

The basic U.S. GAAP accounting and reporting framework for P&C insurance contracts, which is different than the U.S. GAAP accounting and reporting framework for life insurance, is currently applied throughout most of the world and has been operating very effectively for decades on a global basis. The ED represents a full replacement of, and a significant change to FASB's existing, highly functioning accounting and reporting model for P&C insurance contracts. The ED seeks to align the measurement of P&C incurred claims with the measurement of life insurance benefit reserves. We believe this would result in the invalidation of decades of rich, historical performance data that represents the critical input investors use to project and analyze the performance of P&C insurers in a variety of economic and competitive environments over long periods of time. This same data and reporting framework has been utilized by additional financial statement users such as preparers, auditors and regulators.

## III. The ED would Reduce the Transparency and Understandability of P&C Insurers' Financial Statements

Investors are overwhelmingly unsupportive of the ED. More importantly, these same investors have historically supported the P&C insurance industry through participation in capital markets offerings during adverse business cycles and major economic and distress periods in large part because they understand our business and have access to financial reports that transparently portray our financial results and financial condition. Because many traditional P&C investors do not support the ED on the basis that it will not produce financial reports that are transparent, understandable, comparable or consistent with the P&C insurance business, we believe this may result in a reallocation of investment funds within the financial services sector from P&C insurers to banks or other financial sectors with more transparent accounting. Regulators and other financial statement users are interested in ensuring insurers have access to capital markets to obtain capital to expand their business, to provide new and innovative products and to increase competition in existing markets. While the long-term impacts are unclear, in the short-term, traditional P&C investors may avoid the industry as it implements extensive accounting and reporting changes that they do not support. Whether the investors return and at what cost remains uncertain. The policyholder ultimately benefits when insurers are able to meet liquidity and capital needs under all circumstances.

## IV. The ED Eliminates the Harmonization of U.S. Statutory and GAAP

The ED would eliminate the historically valuable harmonization between the U.S. GAAP and U.S. Statutory accounting and reporting for P&C insurance. Currently, the granular reserve development information is used by investors, preparers, auditors, regulators and other financial statement users to support their evaluation of the effectiveness of insurers to price business, set reserves, and manage claims. The ED would eliminate this harmonization by requiring the U.S. GAAP measurement of reserves on a basis different from U.S. Statutory and different from the basis of reserves in the Statutory Schedule P reserve development tables.

## V. The ED Requires Recognition and Measurement of Catastrophic Events Before they Occur

The ED will require the recognition and measurement of low-frequency, high-severity events before they occur on a probability basis with no recognition threshold for either the level of probability or the reasonableness of the loss estimate. This element of the ED represents a significant change for both the recognition of premium deficiency reserves under existing U.S. GAAP as well as the treatment of subsequent events.

## VI. The ED is a Principles-Based Proposal in a Rules Based Environment

The ED represents a principles-based proposal in a rules-based environment. While principles-based accounting may work in some jurisdictions, it has typically not been effective in the U.S., which is also the largest P&C insurance market in the world. The lack of definitive guidance in key areas (e.g., the definition of a portfolio) of this complex proposal will produce inconsistencies that will later be addressed by the FASB, Auditors, the SEC, PCAOB, or other regulatory authorities. The rules that will ultimately be imposed cannot be anticipated and could collectively fundamentally change the proposed standard, cause restatements, and generally create uncertainty around the P&C insurance accounting and reporting model which harms investors, insurers, and policyholders.

## VII. The ED would Require Substantial Incremental Investments in Education, Training, and Technology

The ED would require substantial investments for educating and re-training finance staff, management, the board, investors, regulators, and other stakeholders. In addition, the ED would likely require substantial investments in technology to redesign and replace technology including general ledgers and policy administration systems currently utilized develop financial reports.

We thank FASB for the opportunity to comment on the ED. If you have any questions, please contact me at 202.589.2416.

Best Regards,

Scott Talbott
Senior Vice President, Public Policy