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2013-290
Comment Letter No. 64
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Philip V. Bancroft
Chief Financial Officer

October 25, 2013

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

Re: Insurance Contracts Exposure Draft (File Reference No. 2013-290)

Dear Mr. Golden,

We appreciate the opportunity to comment on the Proposed Accounting Standards Update Exposure Draft (“ED”) *Insurance Contracts (Topic 834)* issued June 27, 2013. The ACE Group is one of the world’s largest multiline property and casualty (“P&C”) insurers. With operations in 53 countries, ACE provides commercial and personal P&C insurance, personal accident and supplemental health insurance, reinsurance, and life insurance to a diverse group of clients. ACE Limited, the Swiss incorporated holding company of the ACE Group of Companies, is publicly traded on the New York Stock Exchange and is a component of the S&P 500 index. ACE has a global presence with public reporting responsibilities in multiple national jurisdictions which require us to prepare financial information in accordance with U.S. GAAP, IFRS, and various other local country GAAP variations. As such, we remain very interested in the development of a single, high quality, global insurance accounting standard, and the potential effect it will have on public reporting. Historically, the majority of our business has been P&C insurance. As such, much of our perspective in these comments is influenced by that focus.

Similar to many of our peers in the insurance industry, we supported the Board’s initial decision to enter the dialogue with the International Accounting Standards Board in its deliberations on insurance contracts based on concerns with the direction those deliberations were taking. We recognized the fact that there was no current standard within the International Financial Reporting Standards that addressed the accounting treatment for insurance contracts, and we felt that there were many merits to the present U.S. GAAP accounting model as it relates to insurance contracts, particularly P&C insurance contracts, which could be applied to enhance the deliberations. We continue to believe that it is preferable to have a single, high quality, global accounting standard for insurance contracts. However, we also believe that any changes to the current accounting standard should only be undertaken if a new global standard is clearly superior to current U.S. GAAP. U.S. GAAP is the accounting model for P&C insurance contracts that is currently used in most of the world, including the United States, and is applied

on a consistent basis, generally understood and preferred by stakeholders in our industry, and is not viewed as being in need of significant revisions. While this current model for P&C insurance contracts can be refined, in our view the model proposed in the ED does not provide significant improvements or more decision-useful financial information when compared to the existing U.S. GAAP model. The complexity in both the ability to understand and apply the proposed model overwhelms its theoretical merits.

We appreciated the opportunity to perform field-testing related to this proposed standard. What we have learned so far from the field-testing exercise is that the implementation and on-going compliance with the new accounting will require extensive effort and is complicated. The significance of this proposed change is evidenced by the sheer complexity of the transition guidance which is needed to adjust the historical accounting in order to provide comparable results. Any fundamental change such as this should only be undertaken if stakeholders feel that the new model provides better, more decision-useful information. This is why field-testing is so critical. Unfortunately, we do not believe that the relatively short timeframe that was afforded the field-testing accomplished this.

While we have a positive reaction to some elements of the proposed standard as expressed in our responses to the ED questions, we also have a number of misgivings, with four areas of particular concern – acquisition costs, expected value approach, impending catastrophe events and discounting of reserves.

Acquisition Costs

Direct-response advertising (“DRA”) campaigns are an important distribution channel for many insurance companies. In particular, certain long-duration accident insurance policies with very basic pricing and benefits are sold via this method throughout the world. Insurance companies incur a substantial up-front cost to acquire the customer this way and can demonstrate through experience that the policies remain in force for many years. The costs of the DRA campaigns are economically similar to other acquisition costs yet the proposed standard will treat them differently. Consider, for instance, the following comparison:

- If an insurance agent solicits 20 customers and successfully acquires five long-duration A&H insurance contracts, the commission is fully deferrable.
- However, if an insurance company solicits the same 20 customers via a call center campaign and successfully acquires five long-duration A&H insurance contracts, the DRA cost under the proposed standard would no longer be deferrable.

These costs are economically similar and both of these distribution channels are inherently successful only a portion of the time. However, by focusing on form over substance, the proposal would treat the DRA cost very differently. Eliminating the ability to defer DRA costs would distort the impact of the economics of the up-front costs in U.S. GAAP earnings. In particular, expensing DRA costs as incurred generates up-front accounting losses which are misleading to investors because the long term relationship produces an overall economic benefit.

We acknowledge that the proposed guidance in the Board’s Revenue Recognition project would require all advertising costs, including DRA, to be expensed as incurred. However, we believe the insurance industry is unique compared to other industries due to the expected long-term nature of the economic relationship generated by the acquisition of certain insurance policies. For instance, when a retailer uses DRA via a catalog mailing, and a customer decides to purchase

an item from the catalog, the customer is not committing to a long-term economic relationship with the retailer. While the retailer can link the DRA campaign to that specific sale, it is not able to directly link the DRA to additional sales years after the initial catalog mailing because the retailer does not create a continuous, economic relationship that will generate future profits after that initial point in time sale. On the other hand, when an insurance policy is sold via a DRA campaign, the customer is expecting and committing to a long-term economic relationship through a policy that is typically expected to remain in force for many years (years of customer behavior data support this assertion). Expensing the DRA costs up-front does not match the economics of the transaction since the up-front costs for an insurance policy generate revenue over many years. Products would not be economically viable to the insurer if they did not renew within expectations. In fact, insurance entities are required to test DRA assets for recoverability under the current U.S. GAAP model. We believe the DRA costs should be deferred and amortized over the persistency period and strongly encourage the Board to reconsider adding this to the future insurance accounting standard.

Expected Value Approach

The Board is proposing an explicit, unbiased, probability-weighted estimate in an effort, we believe, to eliminate any perceived bias when management makes a best estimate of its loss reserves. However, it is impossible to be unbiased when developing insurance loss reserve estimates because everyone is influenced by their experience and actuaries have different views on similar exposures. All estimates are based on experience and judgments that include some level of subjectivity. The proposed expected value approach will not provide a truly unbiased estimate or create consistency across the industry because of the level of inherent subjectivity, which includes the timing and amount of cash flows, the weighting given to various actuarial methodologies, and probabilities assigned to each scenario.

For example, our current recorded U.S. GAAP reserves represent management's best estimate of the unpaid claims as of the reporting date. This best estimate reflects management's consideration of relevant information including actuarial loss projections using empirical data and actuarial models and input from actuarial, underwriting, claims, legal, and finance disciplines. Management's best estimate is an objective value that is independently validated by both outside actuaries and independent auditors. Our starting point for the best estimate is an exposure-based estimate of future losses that over time is superseded by experience-based estimates. For a given financial reporting period, the best estimate is a weighted view of various exposure and experience-based deterministic methods.

Deterministic methods are commonly employed in P&C reserve analyses, the output of which is typically a point estimate, derived from a series of assumptions and judgments using historical claims data and other information. Obvious examples of such methods include the chain-ladder/loss development and Bornhuetter-Ferguson methods but are also widely used where data sets are sparse or volatile such as asbestos and environmental exposures or to assess losses following a major catastrophe.

Estimates using deterministic methods are often arrived at after consideration of results generated by multiple models and/or different sets of assumptions. Stochastic models, which typically produce a distribution of outcomes, are less widely used owing to the inherent complexity of their calibration and use.

Clearly, given the uncertainties inherent in estimating future P&C liabilities, particularly long-tail lines with ten or more years of future potential development, judgment is required as to the extent and pace to which credibility is assigned to emerging loss experience and away from the initial exposure based expectation of loss. However, while judgment is required in this process, it does not translate to bias. When establishing a best estimate of the expected value and the outcome is unknown, different judgments give rise to legitimate differences in expected value, even though rigorous and accepted actuarial standards and processes are used to develop that estimate.

We have heard from peer companies and indirectly through our interactions with FASB staff that the mean of deterministic models currently used in the industry would satisfy the explicit, unbiased, probability-weighted estimate proposed in the guidance. If this is true, we think the proposed guidance would be much easier to adopt if this language was clearer in the body of the proposed standard. We strongly encourage the Board to reconsider its position on the accounting for insurance loss reserves.

Impending Catastrophe Events

We understand the concept of accounting for onerous contracts. However, its application to impending catastrophe events in determining the expected value discussed above is impracticable and in direct contradiction with *ASC 450 – Contingencies*. Current catastrophe modeling is not precise enough to predict the exact location of an event, which is simply unknowable before it happens. This precision is required before any reliable estimate of location can be made. As experienced by the past events that have impacted the United States, being off by one or two Zip Codes can mean an impact of hundreds of millions of dollars on the losses incurred. The incurred loss model in place today is predicated on the accounting concept that a reserve is established only when the obligating event under the contract has occurred. Establishing a reserve prior to such an obligating event by including it in the probability-weighted cash flows would result in significantly less comparability among industry participants, extraordinarily large management estimates and less decision-useful financial information. The ability to generate this information about still pending events in a timely manner is simply not practical given that generating a credible nominal reserve under the current model takes several weeks and can continue to be refined for months once the specifics such as location and magnitude of the event are known.

Discounting of Reserves

ACE is not a cash-flow underwriter in that we do not rely on investment income generated by the timing of cash payments to make up for shortfalls in underwriting performance. We view investment performance separate from underwriting performance. This is a cornerstone in our business philosophy. In fact, we do not consider the time value of money in measuring the quarterly, annual or long-term performance of our insurance operations. As such, our current performance evaluation of our underwriting results does not consider the impact of discounting. We underwrite to a profit and do not look to make up an underwriting deficiency through investment returns. In addition, the key metrics used in our compensation structure also do not include the impact of discounting on our results. We continue to believe that the current U.S. GAAP insurance contracts model best reflects the substance of insurance contracts in spite of its failure to include any impact related to the time value of money. The model is easy to understand and provides stakeholders with the information needed to assess the true underwriting

performance of an insurance entity. Our stakeholders have repeatedly told us that they measure our performance based on the quality and consistency of our undiscounted underwriting performance. The financial information generated under the proposed ED is complicated to apply and overly complex. We believe the proposed guidance will obscure the quality of an insurance entity's financial position by weakening the usefulness of its most significant differentiator, the balance sheet. One of our most prominent buy-side investors asserted that this standard as proposed will be less relevant to investors, and that investors will require insurance entities to continue to furnish the undiscounted underwriting performance. Simply put, the investors will disregard the discount in evaluating our performance.

The requirement that reserves be discounted accentuates the basis risk in underwriting (i.e., that the payment amount will be wrong) by adding the additional element of timing risk. For example, rising interest rates usually are an indicator that inflation has increased. A rise in the interest rate will directly decrease the carried reserves. However, the full impact of this rising inflation may not be immediately factored into the reserve calculation until future periods. The ultimate impacts of interest rates and inflation are unknowable in the reserving process, which we believe increases the overall risk in the long-tail lines of business.

We recognize conceptually the relevance of the impact of discounting due to the timing of claim payments. However, we believe that discounting a reserve that is inherently an estimate of a range of possible outcomes and timings lacks reliability and provides no benefit. This is especially true for reserves of longer tail business (e.g., professional and general liability lines, workers' compensation, and directors and officers) and exposures related to asbestos and environmental remediation where the specific occurrence, timing, or amount of any claim is not reliably determinable. The cash flows of many long-tail lines of business are inherently unpredictable. This unpredictability is further exacerbated by specific legal, scientific, and social environment factors. Adding a discount impact that is based on the extremely uncertain timing and amount of ultimate payment would result in a reduction of carried reserves in an area where the industry continues to add to its current nominal reserves. This is just not logical.

Any discount required by an insurance standard should be limited to the current Securities and Exchange Commission guidance for instances where the amount of that discount is reliably determinable such that the inclusion of a discount would provide reliable financial information. In some ways insurance loss reserves recorded at the nominal amount are similar to bank deposits that are returned to customers at a nominal amount even though the timing of their remittance is uncertain. Due to this uncertainty in timing, the Board allowed banks to carry deposits at the nominal amortized cost rather than fair value. However, the Board is proposing that insurance companies carry insurance reserves on a discounted basis even though both the amount and timing are uncertain in contrast to banks where only the timing is uncertain. We believe the Board should apply consistent judgment around fair value requirements across industries.

The comments above were influenced by our difficulty in performing only limited preliminary field-testing. This field-testing made clear the significant challenges that will result from the adoption of this overly complex standard including the process to determine the expected value reserve with little identifiable benefit and the lack of decision-useful information that was generated. Our field-testing results have convinced us that a significant effort will be required to disclose the results of our operations under the new standard in a way that our investors will understand without providing significant new non-GAAP measures.

In our view, a better approach would be to have a single, global standard with two models that are calibrated more specifically to the differences between life and non-life insurance contracts. The non-life model should continue to present the same well-proven financial information that is demanded by stakeholders to assess insurance entity performance. Our discussions with those stakeholders have indicated that, ironically, the proposed model is so complex that the additional performance information yielded will need to be eliminated to get back to the historical presentation for them to understand the operating results. This is a concern that is expressed regularly in our discussions with stakeholders. We strongly urge the Board to reconsider any decision to move away from the current P&C model that is readily accepted throughout the world. We support convergence to a better insurance standard. However, we do not believe the proposed standard represents an improvement to the current P&C model.

We have included our responses to the specific questions requested in the ED as Appendix A.

We would be pleased to discuss our comments with you, the FASB Board members, or the FASB staff at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Philip V. Bancroft". The signature is written in a cursive, flowing style.

Philip V. Bancroft
Chief Financial Officer

Appendix A **Scope**

Questions for All Respondents

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?*

The proposed scope exclusions seem appropriate given that there is existing U.S. GAAP guidance that adequately addresses the accounting for the excluded contracts.

Recognition

Questions for All Respondents

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?*

Yes, any requirement that will result in the additional burden of unbundling should be very limited. Any decision to unbundle more components of an insurance contract than those currently included in the proposed guidance would not add any benefit.

Measurement Approaches

Questions for All Respondents

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?*

Utilizing two distinct models based on the characteristics of the contracts is appropriate because there are significant economic differences between insurance entities based on the type of contract that is underwritten. However, the proposed premium allocation approach does not provide significant improvements or more decision useful financial information while adding complexity when compared to the existing U.S. GAAP model. As such, the existing U.S. GAAP accounting model for P&C insurance contracts should be maintained.

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?*

Yes, we believe it is appropriate to require entities to apply the premium allocation approach if the expected coverage period is one year or less. Conceptually, we think it is also appropriate for similar contracts with different coverage periods to be accounted for under the same approach irrespective of whether they meet the one year criterion. However, the proposed premium allocation approach does not provide significant improvements or more decision useful financial information while adding complexity when compared to the existing U.S. GAAP model. See response to Question 7.

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?*

The proposed guidance referenced here is unnecessarily confusing, and it is not clear as to the exact meaning of this criterion. It is unclear how to apply this second criterion in practice, and whether it will result in similar contracts of different coverage periods being accounted for similarly. We support utilizing a principle that focuses on the expected coverage period (“long duration” and “short duration”) similar to the current U.S. GAAP classification evaluation.

Portfolio and Contract Boundary

Questions for Preparers and Auditors

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?*

The proposed guidance risks making the definition of a portfolio too granular which could lead to diversity in practice as well as creating unwarranted additional work in the preparation of the financial information. It seems a better approach would be to create a principle, similar to existing U.S. GAAP, which states that contracts should be grouped in a manner that is consistent with the insurance entity’s method of acquiring, servicing and measuring the profitability of its insurance contracts. The proposed guidance creates additional undue complexity and costs over existing U.S. GAAP with no perceived benefit. Further, the utilization of this single definition of portfolio for all aspects of the ED may result in unintended practice issues.

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?*

The proposed guidance on contract boundaries creates a distinct rule in a principles based standard. It seems that a better approach would be to create a principle similar to existing U.S. GAAP, where the expectation of contract persistency is used in assessing contract duration. We especially see this proposed guidance creating issues for certain accident policies that have an expected coverage period of multiple years, but renew under terms that would likely create a new contract boundary more often (monthly in some cases, as would be required under the proposed guidance). The proposed contract boundary definition appears to limit the cash flows that will be considered to a much shorter time frame that is not consistent with the way management prices and sells these contracts. See response to Question 7 for the lack of clarity in classifying these types of contracts.

Fulfillment Cash Flows

Questions for Preparers and Auditors

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?*

Yes, we believe the concept is appropriate; however we do not believe acquisition costs should be netted in the fulfillment cash flows as this practice results in reduced transparency. A gross presentation provides far better insight (even considering disclosure) into the actual movements as they are not commingled with the true reserve movements. The acquisition costs represent a significant investment by an insurance entity made solely for the purpose of obtaining the future cash flows embodied in the contracts, and netting these costs downplays the significance of that investment. This access to the future economic benefits of the contracts acquired justifies the inclusion of the acquisition costs as a separate asset.

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?*

We believe the proposed guidance should establish a principles based approach that is based on a concept of performing a more detailed review only as required by changes in the underlying assumptions rather than requiring preparers to update the measurement of the cash flows each reporting period. Any requirement to generate additional reserve studies on a quarterly basis beyond what is currently done in practice is unnecessary, complex, and costly. We believe the current U.S. GAAP approach is most appropriate since it is time tested and readily understood.

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?

We believe the Board is proposing an explicit, unbiased, probability-weighted estimate in an effort to eliminate any perceived bias in the current management's best estimate approach. However, it is impossible to be unbiased when developing loss reserve estimates. All parties are influenced by the degree of experience they have, and actuaries have different views on similar exposures. All estimates are based on experience and judgments that include some level of subjectivity. The proposed approach will not provide a truly unbiased estimate or create a consistent approach across the industry because of the level of inherent subjectivity in the proposed model which includes the timing and amount of cash flows, the weighting given to various actuarial methodologies, and probabilities assigned to each scenario.

Using a cash flow estimate that is based on a probability-weighted estimate could be viewed to represent a significant shift from the current management's best estimate approach while adding little value over that approach. Our purpose in establishing the best estimate is to provide an estimate of the expected value, and since the outcome is unknown at the time of estimation, different judgments can give rise to legitimate differences in expected value. We have heard from peer companies and indirectly through our interactions with FASB staff that the mean of deterministic models currently used in the industry would satisfy the explicit, unbiased, probability-weighted estimate proposed in the guidance. If this is true, we think the proposed guidance would be much easier to adopt if this language was included in the body of the proposed standard.

Correlated with the proposed guidance on reserving is the accounting for onerous contracts. We believe the proposed guidance is impractical and in direct contradiction with *ASC 450 – Contingencies*. Current catastrophe modeling is not precise enough to predict the exact location of an event, which is simply unknowable before it happens. This precision is required before any reliable estimate of location can be made. The incurred loss model in place today is predicated on the accounting concept that a reserve is established only when the obligating event under the contract has occurred. The ability to generate this information about still pending events in a timely manner is simply not practical given that generating a credible nominal reserve under the current model takes several weeks and can continue to be refined for months once the specifics such as location and magnitude of the event are known. A recent real world example, Tropical Storm Karen, highlights the impracticality of the proposed guidance. In October 2013, Tropical Storm Karen was predicted to strengthen into a Category 1 hurricane before reaching the state of Louisiana. Within hours of the governor of Louisiana declaring a state of emergency, the storm reversed course and went back out to sea. Tropical Storm Karen never reached dry land. If we can't accurately predict whether a storm will make landfall a few hours before it is expected to do so, it is near impossible to predict the precise location of landfall, intensity, resulting economic damages, insured damages, etc.

We strongly encourage the Board to reconsider its position on the accounting for insurance loss reserves.

Questions for All Respondents

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?*

We agree with the classification of changes in cash flows (other than for discount rate) through net income. However, we do not believe it is appropriate to require entities to update their reserve estimates each period. We believe changes in estimates should be accounted for in the period of the change which is consistent with the current U.S. GAAP approach since it is time tested and readily understood. See response to Question 11.

Discount Rates and Discounting

Questions for All Respondents

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?*

We do not believe it is appropriate to discount most P&C contracts except those contracts where the discount is reliably determinable. Our stakeholders have told us they will want us to remove the impact of the proposed discounting model from underwriting results which will result in additional non-GAAP measures. Notwithstanding, we believe the proposed guidance lacks sufficient clarity to enable the discount rate to be consistently applied.

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?*

We continue to believe that the current U.S. GAAP insurance contracts model for P&C operations best reflects the substance of insurance contracts despite its exclusion of the impact related to the time value of money. We agree with the theoretical view that the time value of money needs to be considered in a current measurement of insurance liabilities when the cash flows are estimable and reliably determinable. However, we do not believe discounting results in meaningful information when the occurrence, the timing, or the amount of claim payments are not certain. This is not the way we look at the business. Our stakeholders will require us to remove the impact of the proposed discounting model.

We agree with the position of the SEC on discounting P&C reserves only to the extent that the claims pattern and ultimate cost associated with those reserves are fixed and determinable. We believe discounting a reserve that is inherently an estimate of a range of possible outcomes and timings lacks reliability and provides no benefit. This is especially true for longer tail reserves where the occurrence, the timing, or the amount of any claim is not reliably determinable. It makes no sense to apply a discount to asbestos and environmental reserves since these exposures are not subject to standard actuarial models (i.e., they are based on a company's best estimate of settlement value for each claim and compared to the proportion of the group exposure based on

industry data and survival ratios). Adding a discount that is based on the extremely uncertain timing of ultimate payment would result in a reduction of carried reserves where the industry continues to add to its current reserves. This is just not logical.

We agree with the practical expedient of allowing companies to elect not to discount when incurred claims are expected to be paid within one year of the insured event. The cost/benefit of applying a discount rate to a premium or claim payment that resolves itself in a relatively short time frame is not justified.

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.

We continue to believe that the current U.S. GAAP insurance contracts model best reflects the substance of insurance contracts in spite of its failure to include any impact related to the time value of money. Any discount required by an insurance standard should be limited to instances where the amount and timing of the cash flows for that line of business are reliably determinable such that the inclusion of a discount would provide reliable financial information. Although we question the validity of discounting, except when reliably determinable, we believe that any discount rate related changes in reserves, should be recorded in other comprehensive income or as a last resort, in aggregate through net income. Separating changes in the discount rate from underlying changes in reserve estimates is too complex and costly to justify. See response to Question 19.

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?

We do not believe a test should be required that triggers recognition of a portion of accumulated other comprehensive income into net income. Any test to accomplish this would seem to be fairly complex especially when the amount of the nominal reserve will always be the amount paid as insurance contracts are not settled at a discounted amount.

Questions for Preparers and Auditors

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?

Since there is no prescribed method of calculating the discount rate, multiple methods will be used, and this will clearly vary between entities. This may result in different discount rates for similar portfolios which will not provide comparability across entities. We also have concerns around the auditability of the discount rate since no prescribed method is provided.

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?

We believe the approach in the proposal is more appropriate than the other approaches discussed during the deliberations. However, the complexity of the proposal is significant since most global reserving processes are based on an accident year concept that is not separated into discrete quarters. We believe a better approach would be based on the accident year concept typically used in the industry where the discount rate would be linked to an accident year at inception of the portfolio. This would mean utilizing one discount rate per accident year compared to the proposed guidance where multiple rates would be used in each accident year. This accident year concept is currently utilized by most in the P&C industry, and we believe would be less burdensome on the insurers.

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?

We agree with the concepts as described above. However, the mechanics of implementing these proposed concepts remain difficult. As currently included they represent a high level of complexity that pervades the concepts included in this proposal.

Margin for Contracts Measured Using the Building Block Approach

Questions for All Respondents

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?

Yes, we believe it is appropriate that an insurer should defer a gain upon the initial recognition of an insurance contract. We also believe that it is appropriate under some instances such as certain reinsurance arrangements to defer a loss as it seems unreasonable that an entity would enter into an agreement that generates an economic loss at inception. Recording a loss at inception of a contract implies that the entity made a decision that does not make economic sense.

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.*

We support the use of a single margin approach over the use of a two margin approach. We do not inherently disagree with the concept of a risk margin; however separating any margin at contract inception between risk margin and a contractual service margin further complicates an already complicated model and creates the appearance of precision to the investor where very little precision actually exists. The current guidance around the determination of the risk margin is also very broad and does not appear that it would result in comparability in application.

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?*

See response to question 22. Once again, the concept of unlocking the contractual service margin introduces an added level of complexity to an already complicated model.

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?*

See response to Question 21.

Questions for Preparers and Auditors

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?*

Conceptually we agree with releasing the risk as the variability in the cash flows declines. However, practically applying this concept is likely to be subject to significant variability that will reduce the comparability of financial statements as measuring the decrease in variability of the cash flows would be subject to significant judgment.

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

We do not agree with accreting interest on the margin. Since the calculation of the single margin inherently includes an impact of discounting, it seems that this view goes to the point of including a discount on a discount. Adding a discount to the margin adds very little value while further complicating the already extremely complex model being proposed.

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?*

See response to Question 21.

Acquisition Costs

Questions for Preparers and Auditors

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?*

No, we do not believe deferrable costs should exclude direct-response advertising (DRA) costs. DRA campaigns are an important distribution channel for many insurance companies and many types of long-duration accident insurance policies with very basic pricing and benefits are sold via this method throughout the world. For example, an insurance company may run an infomercial for an accident product which includes a telephone number to a call center where the customer can sign up for an insurance policy. That customer sale can be directly linked to the DRA campaign, and the insurance company will receive subsequent revenue from that sale since the policy remains in force for several years due to the expected long-term economic relationship established. Because of this, we believe insurance company DRA costs are economically different from those of other industries. Insurance companies can directly link the future generation of revenues from the initial policy sale many years after the DRA campaigns due to the expected longer economic relationship created with the customer. Accordingly, we believe the DRA costs should be deferred and amortized over the persistency period.

The campaigns represent a substantial up-front cost to acquire policies that are expected to remain in force for many years, often well beyond their initial contract boundary utilized for contract classification. The campaigns are economically no different than a distribution channel where an insurance agent solicits many potential customers and receives a commission for successfully acquiring insurance policies for some portion of the population. The commissions paid are far in excess of the marketing costs attributable to the successful sale of those policies. The commissions effectively reimburse the agents for all marketing and staff costs, not just those associated with successfully acquired policies. The proposal is focusing on form over substance. Retaining the existing deferral criteria to allow for the inclusion of acquisition costs related to all types of distribution channels seems appropriate. Deferred acquisition costs should be amortized over the anticipated coverage period of the policies.

Effective first quarter 2012, EITF 09-G clarified what acquisition costs should be deferred by insurance companies when issuing or renewing insurance contracts. The revised guidance resulted in insurers investing in significant systems and process changes. The proposed guidance in the ED would again make significant changes to the accounting for DAC.

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?

No, we believe that a gross presentation provides far better insight (even considering disclosure) into the actual movements as they are not commingled with the true reserve movements. The acquisition costs represent a significant investment by an insurance entity made solely for the purpose of obtaining the future cash flows embodied in the contracts, and netting these costs downplays the significance of that investment. This access to the future economic benefits of the contracts acquired seems to support the inclusion of the acquisition costs as a separate asset.

The definition and presentation of acquisition costs in the proposed ED could limit the comparability and usefulness of the resulting information provided. Netting these costs against the liability for remaining coverage obscures the ability to specifically identify the future impact of these acquisition costs on future earnings and seems contrary to existing U.S. GAAP conceptual guidance on the usefulness of netting. Finally, all acquisition costs, whether they were originally deferrable or not, should be included within the proposed measure Underwriting margin. Underwriting margin as currently proposed within the Statement of Comprehensive Income excludes non-deferrable acquisition costs and other costs associated with underwriting which limits its usefulness for managing or understanding an insurance entity because it is inconsistent with how we and our stakeholders evaluate underwriting results. Stakeholders need to understand total acquisition costs as there is no distinction when considering underwriting performance as to whether the acquisition costs were originally deferrable or not. That information is irrelevant to determining performance.

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?

It is unclear to us how the contract boundary guidance and the requirement to apply the premium allocation approach would apply to certain accident insurance policies. Historically, we have treated these as long-duration contracts as they are not subject to being re-underwritten (i.e., the price does not change over the renewal period) and the contracts remain in force over the coverage period of over ten years (i.e., looking beyond the proposed contract boundary definition to determine the DAC amortization). Until this classification is clarified, we are not comfortable with limiting amortization of certain DRA costs to the remaining coverage period.

Insurance Contract Revenue

Questions for All Respondents

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?*

Yes, we believe the current U.S. GAAP model is appropriate which presents revenue and expenses separately which is consistent with the presentation required by our stakeholders. The income statement should allow stakeholders to understand the underwriting performance of the insurance entity. Any move away from this desired transparency into the underwriting performance is not appropriate and would require supplemental information to provide stakeholders with the actual underwriting results needed to judge performance.

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.*

We continue to believe that one of the best indicators of the risk that an insurance entity accepts under its policies is indicated by gross premium written. The exclusion of amounts reinsured from this key metric obscures the ability to identify the real risk assumed by an insurance entity and materially understates the real risk assumed. This is also true for any adjustments to the premium reported based on expense adjustments, ceding commissions, and other traditional fees associated with reinsurance contracts. In addition, due to this exclusion of returnable amounts, a potentially large difference may be created that did not previously exist between the proposed U.S. GAAP definition of premium and the current statutory definition of premium.

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?*

No, this creates additional complexity in the model that is not necessary. This is a consequence of the proposed contract boundary guidance and premium allocation requirement and implies that the premium charged includes a financing component that may or may not exist. It is an indicator of the complexity of applying the proposed model to contracts that are currently classified as long-duration, but that may appropriately, based on the way that stakeholders view these types of contracts, require the application of the premium allocation approach.

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?

Yes, we believe that the practical expedient is appropriate.

Questions for Preparers and Auditors

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 whole concept of revenue recognition as proposed in the ED is flawed. The revenues reported under the proposal in the ED provide very little useful information when evaluating the operating performance of an insurance entity. It masks usefulness to investors in the guise of consistency with other industries, but fails to address the fact that the measure does not provide useful information about the entities meant to be evaluated by this standard.

Participating Contracts

Questions for Preparers and Auditors

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?

This is predominantly a life insurance concept, and we are electing to allow the more life centric insurance entities to respond to this issue.

Reinsurance

Questions for All Respondents

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?*

Under both scenarios described, we agree that the gains upon entering into a reinsurance contract should be deferred and recognized over the settlement period. This is consistent with the thought process that there is still judgment and subjectivity in determining these amounts, so the reinsurance agreement does not represent a true culmination of any of these obligations.

Questions for Preparers and Auditors

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?*

Related to the premium allocation approach and the impact of reinsurance on that model, in general the accounting principle that is most supportable is one where the accounting for the ceded contract mirrors the accounting for the direct contract. This is critical when one considers the nature of reinsurance and what is being accomplished under most arrangements. For instance, in a quota share arrangement, the two parties are truly sharing the risks typically in the working layer of the contract. The purpose is to provide capital relief as well as a true sharing of the costs through the commission reimbursement. This is in part why we disagree with the assertion within the model that the cede commission should be reflected as a reduction of premium. While we agree that conceptually the contract is considered using a net premium at inception, the importance of the intended true sharing of expenses must not be ignored in the model.

Insurance Contracts Acquired in a Business Combination

Questions for All Respondents

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?*

No, we do not agree with the concept where losses that exist at the date of the acquisition should be recognized immediately and ignored when calculating intangibles in connection with the acquisition. We question the complexity of the standard that would require two complex calculations (one to determine the discounted fulfillment cash flow under this model, and one to determine fair value liability under existing purchase accounting) on the date of the acquisition to determine the amount of this proposed loss.

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?

Yes, we feel that establishing a margin is consistent with the tenets of the proposed model. Again, we question the complexity of the proposed standard that requires two complex calculations (referenced above) at the date of the acquisition. This process could have a negative impact because it will result in an ability to create additional margin at the time of acquisition that will benefit future earnings and likely create inconsistent earnings patterns for acquired contracts compared to organically generated contracts.

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?

See responses above.

Contract Modifications

Questions for Preparers and Auditors

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?*

Yes, we feel that the definition of substantial modification should be revised to include only modifications that result in more than an inconsequential change in the cash flows. Most of the criteria in the implementation guidance seem to be focused on life concepts which, when applied strictly to a P&C contract, may generate modification treatment for what could be viewed as only inconsequential changes.

Presentation

Questions for All Respondents

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

The proposed presentation does not reflect the way that stakeholders view the results of an insurance entity. The proposed measure Underwriting margin does not represent a measure that is currently utilized or would provide useful information in assessing the results of an insurance entity. Specifically, the exclusion of non-deferrable acquisition costs and administration expenses from underwriting results does not provide a complete and accurate portrayal of those results. We do not feel that the proposed guidance is an improvement over existing U.S. GAAP. Therefore, we do not feel that the current approach should change beyond a limited number of targeted changes to the life model. Please note as well that the current income statement presentation is what is required by the SEC for public filers and any changes to that presentation would require appropriate action from that body.

Ideally, based on interactions with our stakeholders, the impact of any discounting would be excluded from underwriting and operating income. Both of these measures are commonly used in the P&C industry to measure performance and are the basis of all performance measures for compensation and the investment community. We recommend that these measures be standardized across the industry as follows:

Premiums

Less: Nominal losses

Acquisition costs (deferrable and non-deferrable)

Administrative costs

Underwriting income

Add: Net investment income

Other non-premium revenues/income

Less: Interest expense

Other expenses (non-underwriting)

Operating income before taxes

Less: Income taxes on operating items

Operating income

Add: Realized gains/losses

Impact of discounting nominal losses

Less: Accretion of reserve discount

Income taxes on non-operating items

Net income

Disclosure

Questions for All Respondents

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?*

Generally, the need for the substantial new disclosure requirements is indicative of the overly complex and less transparent model being proposed. While the additional disclosures could be desired by analysts with more sophisticated actuarial staffs and models, the need to provide these comprehensive disclosures to an average stakeholder is not required without considering the complexity of the proposed model. Below are our most significant disclosure concerns:

- The proposed historical disclosures such as loss reserve rollforwards and loss development tables should be retained at the current level. The level of disaggregation will be overly burdensome and create significant levels of additional information potentially beyond the level of usefulness to an average stakeholder.
 - The disaggregation criteria are very broad and will result in inconsistent application and will be potentially difficult to audit.
 - Auditing this substantial new volume of information will be quite burdensome to both preparer and auditor. Significant portions of this information are already currently prepared by many companies on an unaudited basis in the global loss triangles that they release.
- The proposed new disclosure that details the payment pattern timing which is the basis of the underlying discounted reserves at a similarly disaggregated level represents disclosures required only because of the complexity of the proposed model. This will present audit challenges for both preparer and auditor.
- The proposed new disclosure related to the inclusion of sensitivity analysis within the audited financial statements will provide audit challenges for both preparer and auditor.
- Providing sensitivity to interest rates implies that the amounts being paid are interest sensitive when in fact the reserves that are the basis for the proposed model are not interest sensitive since actual claim payments are required on a nominal basis.

Effective Date and Transition

Questions for Preparers and Auditors

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?*

Once a final standard is proposed, significant levels of field testing will be required to understand the results as presented since the proposed model represents a significant deviation from current U.S. GAAP. ACE performed the limited preliminary field testing which made clear the significant challenges that will result from the adoption of this overly complex standard. These challenges include the overly complicated process to determine the expected value reserve with little identifiable benefit, and the lack of decision useful information that was generated through the application of the standard. The results indicate that a significant effort will be required to discuss and interpret the results of our operations in any meaningful manner. Any additional field testing will need to include working with all stakeholders to understand the impact that the model as proposed will have on the reporting of results. Education will need to occur to provide stakeholders with the ability to process these significant changes.

In addition, there will need to be a significant investment to educate and retrain insurance company accounting, treasury, finance, business segment, actuarial, information technology, corporate development personnel, etc. since the proposed guidance represents a fundamental shift in insurance contracts accounting. This undertaking will require substantial efforts (both time and costs), and we are not sure the benefit of the proposed standard outweighs the cost.

System changes are also crucial in determining the amount of time needed to implement the proposed standard. The most significant system changes include, but are not limited to:

- Revisions to enable the reserving systems to calculate an estimate that includes a probability-weighted estimate of losses.
- Revisions to change our accounting for direct response advertising
- Revisions to enable the system to apply and track discount rates for P&C contracts, including favorable and unfavorable development and incurred but not reported reserves.
- Revisions will be needed to the front-end systems and reserving systems to capture current accident year data into quarters, or as currently required by the proposed guidance underwriting year and quarters.
- Revisions to restate the acquisition accounting for companies we acquired
- Revisions to front-end systems used to measure earnings to include the expectation of the timing of exposure to the occurrence of loss for our catastrophe business. Although, we agree with this accounting concept, we do not believe that these costs outweigh the benefits.

Significant levels of new data and processing capability will be required to implement the proposed standard. The ability to perform all of these changes in a manner that can be tested, audited, and supported in a Sarbanes-Oxley environment will be substantial.

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?

We feel that the proposed standard should have the same implementation date for all insurance entities.

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 complicated nature of the proposed transition guidance is indicative of the complex nature of the wholesale changes being proposed to the insurance accounting model that are not desired or needed by stakeholders. The significant nature of these deviations from existing U.S. GAAP should only be made with acceptance from the stakeholders.

The proposed transition guidance is far too complex for companies that will be applying the premium allocation approach. Because there is no margin created under this method, going back to determine contract inception interest rates is less relevant. A better method would be to create a single interest rate that represents the opening balance sheet needed and start using this rate to report the impact of discounting.

For life implementation, we are electing to let the more life centric insurance entities respond to this issue.

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?

See response to Question 44.

Costs and Complexities

Questions for Preparers

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.

Also see our response to question 42. Certain costs associated with applying the proposed guidance will have significant one-time components as well as ongoing components. For instance, the revisions to the determination of the claim liability from a management's best estimate approach to an **approach where we are required to run probabilistic models** will require significant one-time revisions to the systems used to calculate this amount especially if a mean of the deterministic models is not deemed to be sufficient. In addition, it will also require more ongoing costs each period as this calculation will be required to be **updated each reporting period** (i.e., quarterly) likely requiring additional actuarial staff to support those calculations. The process of **applying and tracking discount rates** for P&C contracts, including favorable and unfavorable development and incurred but not reported reserves will require substantial revisions to the systems used to calculate these amounts. Significant revisions will also be needed to both the front-end systems and reserving systems to capture current accident year data (or underwriting year data) into quarters. Although we agree with the accounting concept of recognizing revenue and therefore earnings to include the expectation of the timing of exposure to the occurrence of loss for our catastrophe business, we do not believe the costs required to make this change provide sufficient benefits to be justified since this will require significant revisions to our front-end systems.

The level of detail that will be required to provide all of the **required disclosures** will necessitate changes to systems and greatly increase the cost of preparing and auditing this information. The current SEC requirement to disclose loss reserve development triangles remains unaudited for this reason.

Again, all of this change introduces the appearance that there is a greater level of precision in a process that is and will always be inherently less precise. The **transition adjustments** required will also require significant changes to our existing reserves similar to the ongoing reserve adjustments but related to very old contracts.

In addition to the costs required to revise the systems, there will be a significant amount of time, effort and costs required to educate and retrain employees. The proposed guidance will transform the accounting for insurance and will impact not only the accounting department but will significantly impact other departments including treasury, finance, business segments, actuarial, information technology, corporate development, etc. This undertaking will require substantial efforts, and we are not sure the benefit of the proposed standard outweighs the cost.

We estimate that these costs at transition will be significant to ACE (in excess of \$30 million which is based on past experience with implementing the Solvency II regime).