Liberty Mutual.

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Technical Director
Financial Accounting Standards Board
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RE: File Reference No. 2013-29 Proposed Accounting Standards Update, – Insurance Contracts (Topic 834)

Liberty Mutual Holding Company, Inc. ("Liberty Mutual", "We" or "the Company) appreciates the opportunity to respond to the FASB's Proposed Accounting Standards Update (ASU) on Insurance Contracts.

Liberty Mutual is a diversified global insurer and the third largest property and casualty (P&C) insurer in the U.S. based upon 2012 direct written premium (DWP) and the 5th largest P&C insurer in the world based upon 2012 Direct Written Premium. As of December 31, 2012, the Company had $120 billion in consolidated assets, $102 billion in consolidated liabilities, and $37 billion in annual consolidated revenues.

GENERAL COMMENTS

It is the Company's opinion that the current U.S. GAAP accounting model utilized by our P&C and life insurance companies is a functioning, well developed set of widely accepted accounting standards and we support its continued application. This model could be supplemented through a comprehensive review of current disclosure requirements to address recent stakeholder requests for increased transparency of the estimates and judgments made by management in the preparation of an insurer's financial statements. Our opinion on the utility of the current U.S. GAAP accounting model is echoed by the industry and investors alike.

The proposed ASU clearly defines two models of accounting for insurance contracts under U.S. GAAP based principally on coverage period. It is our belief that since the differences between these products are significant enough to warrant separate models, there should also be separate standards. This letter will focus on our thoughts regarding the Premium Allocation Approach ("PAA" or "short term model") while our comments on the Building Block Approach ("BBA" or "long term model") are included in a separate letter from Liberty Life Assurance Company (see attached).

When the Insurance Contracts project began, the International Accounting Standard Setters were faced with the pressure of creating a globally accepted accounting model for insurance where one did not previously exist. The U.S. joined the process as part of the U.S. GAAP-IFRS convergence project, not as a result of a malfunctioning accounting model within U.S. GAAP. As it is now quite clear that convergence will not be achieved, we should not discard a working model to adopt one at a significant cost to implement and maintain - especially when the new model adds greater complexity, without the benefit of greater comparability or decision useful information. The current accounting model in ASC 944 – Financial Services– Insurance provides a consistent, proven basis for accounting for short term insurance contracts. We have seen no demand for change to the current model other than a perceived for greater transparency which can be better met through modified disclosure requirements.

Even more troubling is that the proposed guidance is not consistent with how we manage and monitor our business. Therefore we question how the proposed model would provide investors with more useful information for decision making. Implementation will lead to two potentially significant issues. First, we believe it will lead to an increased use of non-GAAP measures. There are certain metrics that are tried and true in the P&C industry (combined ratio, net written premium (NWP), and nominal reserves) that would need to be disclosed in the results. Second, it is quite likely that management would continue to use current guidance for internal management purposes, including incentive based compensation. Hence there would be three basis of accounting (current, statutory and PAA) if the new standard was adopted. This would lead to management reporting being on a different basis than the financial information being used by investors. For these reasons we suggest that before an effective date is established, the FASB address the industry's and investors comments and concerns.

Furthermore, though the FASB believes the proposed changes are satisfying the demands of the users of insurance company financial statements, we do not see it. Not only have we been told by investors that they would like to keep the current guidance, the NAIC has concerns as well. As outlined in their comments letter, they do not see how these changes are beneficial to the insurance industry. The NAIC believes the FASB proposal will jeopardize a comprehensive accounting and reporting system that has been in place for decades, and whose efficacy has been continuously validated over time in the face of extreme events and circumstances. Additionally, the NAIC believes the proposed Exposure Draft will diminish the ability for users to comprehend and compare financial statements resulting from insurance transactions. The proposed guidance will negatively impact regulators' ability to assess insurance companies using a comprehensive, consolidated approach.

If, after evaluating the feedback, the FASB still determines that changes are needed to the current model, we have the following comments regarding the proposed draft. Some of the comments question the reasoning behind the changes and some of the comments seek clarity in the Exposure Draft. We believe that in some areas of the Exposure Draft, the proposal is too vague for us to offer constructive comments.

Definition of Portfolio of Insurance Contracts

It appears that the FASB is frustrated with how companies apply the current guidance in assessing premium deficiencies. As such, the FASB has constructed new guidance to resolve the perceived misapplication. If that is in fact the main concern driving the change, we feel the FASB has lost sight of the importance of the portfolio concept, as it is a main driver in determining operating results. We think FASB's attempt to fix the issue, has actually made it more complicated based on the strict interpretation of the proposed guidance.

Furthermore, this is one of the areas where we believe the proposed guidance is too vague. Based on the reading of the draft, we believe this definition introduces an unintended level of granularity in the level of measurement of insurance contracts. The biggest concern is the guidance defines portfolio of insurance contracts as subject to similar risks and priced similarly relative to the risk assumed. Taking the literal wording, an insurer is most likely going to populate its portfolios differently from other insurers. For example, would homeowners policies have to be split geographically due to pricing differences related to regional risks assumed (hail and tornado vs. hurricane)?

In addition, we do not think the definition of an insurance portfolio should be one size fits all. With this potential level of detail, the definition cannot be applied the same way to claims reserving, onerous testing and recognition of premium. Management currently looks at portfolios differently for premium deficiency testing versus how claim reserving is reviewed. Different risks within a single contract should not be separated. For example, different reserving methodologies are typically used when measuring the different risks within a contract, such as physical damage and bodily injury risks within an auto insurance policy. However, these risks are part of a single contract and therefore should not be part of separate portfolios.

Measurement of Insurance Liability

There is some confusion within the insurance industry as to what the new guidance for probability weighted cash flows entails. The question is whether the inputs or the outputs should be probability weighted when assessing the measurement of the liability. If the intention is that the inputs should be probability weighted (such as weighing the actuarial methods used – paid and incurred for example), then the new standard does not appear to require significant changes. If the FASB intention is for the outputs to be probability weighted, then the financial reporting standard should not require, or imply the need for a probability weighted methodology to estimate cash flows to measure non-life insurance contracts. It is not possible to reliably estimate the probabilities associated with the entire range of potential scenarios (which is infinite), and any probabilities that are assigned cannot be fully tested before the environment changes enough to render the past data irrelevant to estimating the current risk. The financial reporting standard should set forth a principle (such as to determine a mean estimate) and allow the actuarial profession to set the standards on how the principle will be met.

We believe the example in the Exposure Draft outlining the accounting for an impending hurricane speaks volumes to the problems with a probability weighted average model. How can it be useful if preparers record a significant loss from a hurricane in a reporting period (based on probability of occurrence) when the hurricane does not strike? The current proposal distorts the results of operations and it causes unnecessary volatility to the financial statements.

Specifically, we have the following concerns:

In the current accounting standards, held reserves are based on Management's Best Estimate (MBE) of reserves. In the typical P&C context, MBE is based on work done by actuaries to estimate the unpaid claim and claim adjustment expense liabilities of the company. This estimate is referred to as the Actuarial Central Estimate (ACE) and is intended to be "an estimate that represents an expected value over the range of reasonably possible outcomes" (ASOP 43, 2.1), i.e., a mean. This estimate is usually the result of an experienced actuary applying multiple methods to a particular estimation, and then applying judgment to select their ACE. There is no requirement (or recommendation) for the utilization of probability distributions to calculate the ACE and, in practice; most actuarial reserve analyses do not create explicit probability distributions. To force the creation of a distribution of outcomes and of payment patterns or cash flows will imply a level of sophistication and certainty that does not exist in the process. This could create a false impression of the ability of actuaries to qualify the uncertainty inherent in any reserve estimate.

Language might imply the actuarial reserve analyses cover all risk factors regarding claims. In determining MBE, the mean ought to include considerations of outcomes not explicitly represented in the actuarial analysis. The ability for management to select a reserve other than the ACE, allows for the consideration of exogenous forces that affect ultimate claim payments. Management may consider additional sources of risk and uncertainty in setting their held reserve that appropriately reflect their estimate of the impact of some of these forces. Prohibiting the consideration of such "tail risks" is unduly optimistic. Furthermore, we believe it is important for management to have the latitude to make adjustments (a provision for uncertainty) from the actuarial estimate to contemplate the fact that not all potential future outcomes (future legislation, law changes or economics) can be estimated based on past data or with models built on past data.

Management Bias

The proposed method allows for more subjectivity and bias in the estimate than the MBE approach uses in the current guidance. Current guidance takes an actuarially achieved result for the estimate of ultimate claim liabilities and layers on or removes a single amount for management's view of additional factors they believe will result in a more accurate ending liability. The proposed method takes the actuarial methods and layers in a probability factor which will ultimately be determined by actuaries in conjunction with management. This new method will effectively result in a final result that is similar to the view under current guidance however the ability to break apart actuarial results versus probability factors at each model level will be a momentous task.

Discounting

Discounting of reserves, other than those that are fixed and reliably determinable, does not meet the stated objective of simplifying insurance accounting. Discounting would add significant complexity without any discernible benefits. While there is no argument regarding the time value of money, the Exposure Draft would replace a simple transparent accounting model that allows financial statement readers to understand the development of claims reserves and management's ability to estimate reserves, and replaces it with a discounted model that would make it significantly more difficult for readers of the financial statements to analyze the results without backing out the effects of discounting.

The following explanations support our position:

- Most analysts and management evaluate investment performance and underwriting performance separately. The proposed model adds an investment component into the underwriting results which makes the evaluation of underwriting performance more difficult
- Discounting implies reserves are interest sensitive when they are generally not (more susceptible to social inflation/deflation and demand surge).
- Insurance liabilities cannot be settled on a present value basis since it violates insurance law.
- Reserves are calculated without regard to timing.
- The timing of the payment of claims is uncertain (more so for casualty insurance) and significantly impacted by litigation (some large cases can last a decade or more).
- Changes in discount rates can overwhelm changes in nominal reserves which can mask reserve development making it less transparent for readers of financial statements
- Unlike many life insurance contracts, assets are not "built-up" to meet future claims, and most policies do not have claims so that there is not an implicit financing agreement with the policyholder.

As mentioned above, discounting would lead to a disjoint in the information reported in the Financial Statements and the Management Discussion and Analysis (MD&A) as the MD&A is supposed to be "through the eyes of management" which would be on a nominal basis.

We believe that the current discounting practice is appropriate and that the new model would not provide a substantial improvement. Additional discounting would be costly (updates to current systems and manpower) and not add value or transparency to our stakeholders when reviewing our financial position. However, if implemented, guidance should be provided to ensure a consistent approach for comparability across insurers and to eliminate misapplication and divergence in practice.

Also, the FASB should consider that similar types of liabilities are being treated differently between banks and insurance companies. In the recently issued Exposure Draft for Financial Instruments, the FASB defined core deposit liabilities as deposits without a contractual maturity that management considers to be a stable source of funds. That is exactly how insurance companies perceive claim liabilities. Claim liabilities do not have a contractual maturity, payment is dependent on many factors, and management does not specifically match assets with the liabilities. Management looks at the portfolio on an average duration view.

With regards to the recording of the discount rate, we have a couple of issues with the proposed guidance. First, we believe all impacts relating to discount should run through Other Comprehensive Income (OCI). Having the original discount run through losses and accreted back into the income statement through interest expense causes certain performance metrics to be altered. Unless interest expense is added back into the combined ratio, the ratio would appear better than it is. In addition, the financial statements would appear to have favorable development due to the unwinding of the discount running through interest expense.

We do agree with management's ability to discount reserves using either a top-down approach or bottom up approach. We believe under the PAA methodology, the best answer would be using the bottom up approach where reserves are discounted using a risk-free rate with a liquidity adjustment. We also believe that for property and casualty companies, the bottom up approach would lead to using just the risk free rate for all lines except homeowners insurance. Property and casualty insurance companies do not have significant liquidity risk in their products since there cannot be a run on the company. Payments are only made when a claim is incurred. The primary source of liquidity issues is catastrophes for homeowners insurance, though these risks are limited as most companies have liquidity back-up plans in the case of a significant catastrophe.

Onerous Contracts

We do not see where the Onerous Contract guidance in the exposure draft provides more decision useful information about the company's insurance contracts than the current guidance. In fact with the inclusion of low frequency/high severity events in the Onerous Contract guidance, it is likely that less decision useful information is provided. The financial statements are less accurate and volatile if a company cannot record a subsequent event adjustment to eliminate an erroneous balance until the following period end financial statements are issued. Under this scenario, both periods of financial statements are distorted. This is one of the primary reasons current accounting guidance does not allow the recognition of a low frequency/high severity event until it happens.

The term "premium deficiency" and "onerous contract" is intended to address the concept that the premium charged on a contract was mispriced to the risk acquired. This could be due to underwriting or pricing or both, but the fact that an insurer incurs losses from a contract as a result of severe events is not necessarily the result of mispricing or poor underwriting. Some contracts contain business risk or event risk. Significant insurable events sometimes happen, and, if priced correctly, those events will be covered by the profits that arise during the times when those events don't happen. This can only be measured over time, not during the specific dates or times that the events occurred.

In addition, including a liability for catastrophic events that have not occurred directly contradicts current accounting guidance. Specifically for hurricanes, it is impossible to reliably estimate a loss before the actual occurrence of the loss event even if the probability of that event is reasonably assured. The ability to generate information about pending events is not possible in a reliable or timely manner because there are too many unknowns (exact location, magnitude, types of damage and existence of deductibles).

Recording additional reserves prior to the occurrence of the obligating event do not provide more decision-useful information than the current disclosure required for such impending catastrophic events that occur after the end of the reporting period. The new guidance would create unnecessary volatility prior to the actual obligating event that could ultimately be reversed and could result in impaired investor confidence in the financial reporting process.

Not only does the guidance add complexity where it is not needed, it also threatens the comparability that the FASB seeks. Comparability between entities is impaired as projections and assumptions, which by the nature of the event are potentially quite large, are highly subjective and difficult to project with reasonable certainty due to the number of variables linked to the event, and most likely would vary greatly by company.

Reinsurance

We do not believe the reinsurance guidance is thorough enough to reasonably comment on the proposal. Given the complexity of reinsurance accounting and considering the length of the current guidance, we believe that the exposure draft is limited in directing insurance companies on how to record reinsurance.

Specifically, we are concerned with the concept of netting ceding commission against ceded premiums instead of expenses. Though we understand the Board's view that ceding commissions and other fees are economically part of the ceded premiums and inherent in the pricing of the reinsurance, we believe other factors outweigh this concept. First, you could argue the same logic on the direct side as all policies are priced to compensate for commissions and other expenses so by only applying this guidance under a reinsurance agreement, you create a disconnect. Due to this disconnect between direct writings and reinsurance, certain performance metrics historically used would be skewed in the future. Specifically, the combined ratio would be impacted due to higher net written premiums, and increased underwriting expenses make it appear a company's expense ratio is higher than it really is. Here are a couple of examples to expand on this issue. As a servicing carrier for various state workers compensation involuntary market pools, we write insurance contracts on a direct basis and then cede 100% of the business to the various state pools. Under current accounting, our net premiums are $0 as we have no underwriting exposure. Under the proposed guidance, we would end up with net earned premium in relation to the related expenses even though we have no underwriting exposure. So, at the very least, there should be an exception for any 100% fronting arrangements.

Another example is a 50/50 quota share, where two different companies, though sharing the same risks, would have completely different income statement results with two different combined ratios. We do not understand how this provides the comparability that the FASB seeks in the proposed guidance.

Additionally, the FASB makes the argument that unlike direct insurance contracts written in which the insurer's obligation to pay acquisition costs is separate from the insurance contract itself, a reinsurance contract includes the reinsurer's obligation to pay these acquisition costs to the cedant. We would challenge the FASB on this reasoning. In reinsurance transactions, a cedant pays a brokerage commission which is no different from a commission from an independent agent. The broker receives their fee and passes the premium onto the assumed entity.

Earning of Premium

There are two areas of concern in regards to the earning of premium in the new Exposure Draft. First, we believe that premium for non-life business should be earned straight-line instead of earning premium based on the passage of time or on the expected timing of incurred claims and benefits if that pattern differs significantly from the passage of time as mandated by the new guidance. As the insurer is standing ready at every point in time regardless of when the claim is incurred, it makes sense the recognize the premium on a straight-line basis. Consistent with the discussion on the definition of a portfolio, this guidance could lead to excessive complexity and time commitment that does not provide the user with better information. Depending on the level of the definition of the portfolio, it could lead to recording premiums on homeowner policies and potential workers compensation policies based the expected timing of the claims incurred. Why make an insurance company go through the complex process of altering systems when all premiums are earned within one year?

The second issue is the concept of reducing premiums earned if there are estimated returnable amounts. Though the FASB believes the amounts should not be included in either revenue or losses as it is not subject to insurance risk, we believe the FASB is adding more complexity than is needed in the process. We believe that if the policy has insurance risk, it is not cost beneficial to have to bifurcate the amount not considered insurance risk. In addition, significant premium could be excluded from financial statements that have historically been considered income (for example accrued retrospective policies for workers compensation).

Business Combinations

Consistent with the issues addressed above, we are concerned that there may be immediate loss recognition on the date of acquisition if the fair value of the insurance contracts are in excess of the expected net cash flows interpreted by BC 236 "*(a) if the present value of fulfillment cash flows exceeds the fair value of the insurance contracts, the accounting entity shall recognize a loss on the acquisition date*". There are many reasons for a company to acquire another company on an economic basis; this guidance could put unreasonable constraints that may prevent the acquisition even though the acquisition economically makes sense. The current guidance under ASC Topic 805 should be maintained.

In addition to the critical issues addressed above, there is vagueness in the wording of the exposure draft that prevents us from confidently opining on selected issues. These issues include:

- For the concept of performance obligations being separated from the insurance contract, it is too vague to determine if certain obligations are to be considered for separate presentation. Specifically, based on the literature, there is a question whether loss prevention services would fall under the proposed guidance. If loss prevention services are to be separated, we disagree. Loss prevention services are a critical part of ensuring the underwriting of the policy is appropriate and the policy is profitable.

- The literature around roadside assistance needs to be clarified. Roadside assistance is normally included as an endorsement to an insurance contract. It is confusing as to why this would be separately addressed within the Exposure Draft. Once again, it should be considered part of the contract and not accounted for separately.
- The level of disclosures is also vague. We are unsure if disclosures should be at the Group level, the operating unit level, or worse case at the portfolio level. Depending on the level, the amount of work and costs could be significant.
- Overall, the Exposure Draft could use more examples to support the positions in the paper. More examples would go a long way in solving the vagueness of the Exposure Draft and ensuring consistency in application if this guidance is adopted.

Questions:

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

As mentioned in the general comments, we believe this area needs clarification before making a formal opinion. For the concept of performance obligations being separated from the accounting, it is too vague to determine if certain obligations are to be considered for separate presentation. Specifically, based on the literature, there is a question whether loss prevention services would fall under the proposed guidance. If loss prevention services are to be separated, we disagree. Loss prevention services are a critical part of ensuring the underwriting of the policy is appropriate. In addition, any type of unbundling could lead to inconsistency in application within the industry, leading to too many opportunities to take advantage of removing items from premiums. Down the road, if the NAIC agreed to this accounting, it could cause havoc in assessing premium taxes on a lower level of premium.

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 deficiency approach. If, not, which model do you think should apply and do you think there should be any changes made to that model?

Not only do we believe that separate models should apply to life and non-life policies, we believe there should be two totally distinct standards. Trying to converge the building block approach and premium allocation approach into the same draft causes confusion. Then, if two separate models are to be used, we do not see a need for a new model for property and casualty business. The current model is working and since there is no convergence with the International community, changing U.S. GAAP is not warranted or needed.

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

This is one of the areas where we believe the proposed guidance is too vague. The use of a portfolio is one of the most important concepts in the ED, as application of much of the new guidance is dependent on how insurers populate their portfolios. Based on the reading of the draft, we believe this definition introduces an unintended level of granularity in the level of measurement of insurance contracts. The biggest concern is where the guidance defines portfolio of insurance contracts as subject to similar risks and priced similarly relative to the risk assumed. However, we feel there is a need for additional clarification without being prescriptive. The clarification should include examples applicable to the Premium Allocation Approach. This would narrow potential gaps in interpreting the guidance among insurers and a company's auditors. As defined in the Exposure Draft there will be less comparability and less transparency in the financial statements.

In addition, we do not think the definition of an insurance contract should be one size fits all. With this potential level of detail, the definition may not be able to encompass claims reserving, onerous testing and premium recognition. Management currently looks at portfolios differently for premium deficiency testing versus how claim reserving is reviewed.

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?

No, the financial reporting standard should not require, or imply the need, for a probability weighted methodology to estimate cash flows to measure non-life insurance contracts. It is not possible to reliably estimate the probabilities associated with the entire range of potential scenarios (which is infinite), and any probabilities that are assigned cannot be fully tested before the environment changes enough to render the past data irrelevant to estimating the current risk. The financial reporting standard should set forth a principle (such as to determine a mean estimate) and allow the actuarial profession to set the standards on how the principle will be met.

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?

No, for contracts measured using the premium allocation approach, we do not believe discounting beyond how discounting is currently applied is warranted. We do not believe it adds value to the user and adds unnecessary complexity for the preparer. Discounting of reserves, other than those that are fixed and reliably determinable, does not meet the stated objective of simplifying insurance accounting. Discounting would add significant complexity without any discernible benefits. While there is no argument regarding the time value of money, the Exposure Draft would replace a simple transparent accounting model that allows readers of the financial statements to understand the development of claims reserves and management's ability to estimate reserves, and replaces it with a discounted model that would make it significantly more difficult to analyze the results.

We do believe if discounting is implemented, then companies should be able to elect to not discount portfolios when the incurred claims are expected to be paid within one year of the insured event. Also, we seek clarification that this is not on a portfolio basis. For example, just because an auto portfolio has both bodily injury and physical damage, it should not mean that the physical damage piece would have to be discounted even though claims are paid within a year.

Question 16: Do you agree that an entity should segregate the effects of underwriting performance from the effects of changes in the discount rates (which would reverse over time) by recognizing changes in the present value of the fulfillment of 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 the income statement? Please explain your reasoning.

We believe that all impacts from discounting should be reflected in OCI. As the guidance currently stands, though the net income is accurately portrayed with the presentation of the discount at the date of the incurred claim, the underwriting results are not. Having the original discount run through losses and accreted back into the income statement through interest expense causes certain performance metrics to be altered. Unless interest expense is added back in to the combined ratio, the ratio would appear better than it is. In addition, the financial statements would appear to have favorable development due to the unwinding of the discount running through interest expense.

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

We agree with the Board's decision to not include a loss recognition test. We do not believe a loss recognition test is needed to assess the discount amount in OCI. Changes due to changes in discount rate should never impact the income statement. Using the logic that at the date of the contract when premiums are paid they are invested at current rates, and then changes in discount rate do not impact the anticipated investment income over the life of the policy and claim. As such, no adjustment needs to be made to the income statement. The change in discount rate is just a timing issue and should be released out of OCI at time of payment.

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 margin. If not, why not.

We do believe that continuing with the current financial position presentation is the best route to go. As discussed above, there are critical performance metrics that need to be maintained for property and casualty insurance companies. These metrics include both net premiums written and combined ratio. If the income statement only had changes in margin, neither one of these metrics could be used. These are tried and true measures that both management and users of the financial statements rely on to both assess performance and also compare to peers. In addition, this is similar to other industries where sales are separately recorded from cost of goods sold.

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) perspective reinsurance contracts accounted for using the building block approach? If not, what do you recommend and why?

(a) Yes because it's conservative and will prevent companies from using retroactive arrangements to increase current year income and equity. It's also consistent with the current GAAP accounting. (b) Defer to Life as it's not significant for P&C companies.

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?

We agree that assumptions for ceded reinsurance contracts should be consistent with the assumptions for the underlying insurance contracts when it makes sense (i.e. quota share, ceded losses). There are times when the two are not connected and assumptions should be different (i.e. XOL ceded premium). In that case, assumptions should follow the settlement terms of the reinsurance contract.

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 guidelines 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 increase or decrease goodwill for the differences between the fair value of the measurement in accordance with the guidance in this proposed Update on those assets and liabilities? Why or Why not?

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

Question 41: Do you agree with the disclosure requirements included in this proposed update? If not, which disclosure requirements 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?

The Company is supportive of the transparency initiative by all accounting standard setters and the Company is committed to improving our disclosures to respond to the needs to of the users of our financial statements. While relevant and useful information is key to understanding the financial statements, we find the presentation and disclosure framework proposed in the Exposure Draft to be confusing and burdensome. We believe the proposed changes to the disclosures will be difficult and costly to implement, and would result in voluminous disclosures, while not necessarily providing meaningful information. Additionally, it would not be feasible to produce the required disclosures in a timely manner, nor would it provide audit firms with sufficient time to audit these disclosures. We request that specific guidance be developed and standards are set to provide clarity on what the users of the financial statements would find useful, and to provide comparability among entities.

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.

Though we know there are going to be significant costs, both in implementing the guidance and on an ongoing basis, we cannot substantiate the severity of the costs until we understand the Exposure Draft more fully. As we have discussed throughout the paper, there are many levels of vagueness that prevent us from assessing the true costs. The clarity around the definition of insurance contract could lead to significant ongoing costs if the definition leads to portfolios being defined very narrowly. We do know based on the current guidance that significant costs will be incurred to modify claims systems and ongoing costs will be required to support the actuarial process The primary areas that will drive the costs are discounting, probability weighted cash flow, disclosures, and potentially the definition of an insurance contract.

Very truly yours,

John D. Doyle
Vice President and Comptroller
Liberty Mutual Insurance