

Matthew G. Heimermann
457 Valley Rd NW
Atlanta, GA 30305

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Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

To: FASB Directors & Insurance Contract Project Manager

Subject: File Reference No. 2013-290

Following my participation in FASB's December 16, 2013 roundtable discussion (and building on my comment letter dated October 22, 2013), I wanted to take the opportunity to share some thoughts on potential enhancements to existing insurance accounting standards. Before elaborating, I would like to reiterate my belief that current GAAP works quite well for insurance, especially with respect to the non-life insurance sector, and is superior to the proposals by both the FASB and IASB. That said, I believe that a number of logical modifications to US GAAP exist that would be beneficial to users. Specifically:

- Profit recognition could be enhanced by changing premium recognition for lines of business that have seasonality in underlying loss experience. Companies in severity driven lines with a seasonal component could recognize premium in relation to historical risk (i.e., incurred losses) in a policy period rather than simply ratably over the year (e.g., catastrophe-related lines or property in wind-exposed states). This would better match premiums with incurred losses (especially with respect to large claim events) in most quarterly periods and would reduce period-to-period equity swings (whether from outsized profits or outsized losses) resulting from any disconnect between loss and revenue recognition. Alternatively, recognition could be done on a portfolio basis relative to historic catastrophic events if state-level or smaller portfolios are not feasible or administratively reasonable to identify.
- While loss reserving should continue to be based on actuarial best-estimates, severity-driven products could hold higher levels of IBNR until a majority of the policy period has been realized (e.g., losses reflect the expected annual outcome of an accident-year not actual experience until a majority of premium is recognized). This could be an alternative to or used in conjunction with the premium recognition changes discussed above. In addition, discount rates for structured liabilities should be set consistently and utilize a risk-free rate since these reserves have increased payment certainty (e.g., worker compensation claims settled with annuities). Although I should note that I still struggle with the value of including any discounting in GAAP accounting for reserves have increased payment certainty as many investors are not even aware of the impact of this on the comparability of the equity accounts. Regardless, eliminating reserve discounting as part of the fair value of the balance sheet in purchase accounting could improve comparability of reserves, incurred losses, and investment income for acquirers and non-acquirers.
- Improve the classification and recognition of investment income by distinguishing between revenue related to assets held for income and those held for capital appreciation, the classification of which would be done at the time a security is purchased (accordingly, the security of the same issuer could appear in both buckets at the same time depending on the time of purchase). In addition, segregate

retained earnings (and AOCI) to reflect this classification distinction so that investors can better track the value added/subtracted by investing activities (putting aside the efficacy of AOCI). Under this change, the transfer of assets from the capital appreciation bucket to the income bucket to reflect that intent changes would be allowed with any gain or loss at the time attributed to capital appreciation (transfers from income to capital appreciation would not be allowed). Eliminate the trading classification to improve comparability of financial results across companies by eliminating mark-to-market from realized gains and losses.

- Disclosure improvements are needed, especially with respect to the asset classes and durations of investments that insurance companies hold as well as reserves. With respect to investments, standardizing the buckets that must be disclosed (i.e., government, government-backed, corporate—investment grade and below investment grade, municipal, etc.) with durations and YTM for each asset category. In addition, Schedule P should be a mandated Form 10-K disclosure with standardized product grouping (as is the case under SAP). Current and prior-year incurred (and paid) losses should be a quarterly disclosure (if not provided on the face of the income statement) rather than simply an annual one. While this has implications outside of the insurance industry, for a sector like insurance, standardizing operating segment breakdowns would be helpful. In particular, breakout insurance versus reinsurance and personal versus commercial insurance at the highest level, but even product grouping below that. The ability to compare companies based on product is much more meaningful than based on geography or scope of management decision-making.

In closing, I appreciate the opportunity to follow up on our discussion and my previous comment letter. I care deeply that the industry has an accounting model that is representative and usable for all interested parties. **Current GAAP already provides a sound accounting framework and should be enhanced, in my view.** I am more than willing to discuss the my suggestions in more detail.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Heimermann', with a stylized flourish at the end.

Matthew G. Heimermann