



November 30, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 1870-100

Re: Discussion Paper – Preliminary Views on Insurance Contracts

Dear Sirs,

RenaissanceRe Holdings Ltd. and Subsidiaries (“RenaissanceRe” or the “Company”) appreciates the opportunity to comment on the Discussion Paper – Preliminary Views on Insurance Contracts (the “Discussion Paper”). Founded in Bermuda in 1993 and listed on the New York Stock Exchange (NYSE: RNR) since 1995, RenaissanceRe is a global provider of reinsurance and insurance to cover the risk of natural and man-made catastrophes. We are one of the world’s largest catastrophe reinsurers, and also provide specialty reinsurance for a wide range of coverages as well as property and casualty primary insurance, crop insurance and quota share reinsurance. Our gross premiums written were \$1.7 billion for the year ended December 31, 2009 and our shareholders’ equity was \$3.8 billion at December 31, 2009. We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States (“GAAP”).

We commend the FASB Staff on preparing a well-structured Discussion Paper that lays out the key concepts in a clear and concise way and appreciate the fact that the FASB is committing significant resources to reviewing the accounting for (re)insurance contracts. The (re)insurance industry is a significant and important participant in efficient and well functioning capital markets and the economy in general. Our main product, property catastrophe reinsurance, which protects insurance and other reinsurance companies against natural and man-made low frequency, high severity events, such as hurricanes, earthquakes, terrorist attacks and other catastrophes, is critical in allowing (re)insurance companies to sell their underlying policies. Property catastrophe reinsurance enables (re)insurance companies to diversify their peak risks and allows consumers and businesses to buy (re)insurance protection in catastrophe prone areas such as California, Florida, Texas, Japan, certain parts of Europe and other peak catastrophe zones where losses from such events would otherwise potentially bankrupt a (re)insurance company or the underlying consumer or business if they could not purchase (re)insurance protection. Principally all insurance companies purchase some form of property catastrophe reinsurance protection.

RenaissanceRe Holdings Ltd.

Detailed below are our comments on each of the questions outlined in the Discussion Paper. Where a question is either not applicable to the (re)insurance products we purchase or sell, or where we do not have a strong opinion on the question posed, our response is “No comment.” It is important to note that our comments are exclusively focused on property and casualty (re)insurance contracts. We are not providing comments with respect of long-duration or life (re)insurance products.

Overall, we have three main comments on the Discussion Paper:

- **We support targeted amendments to GAAP, rather than a comprehensive revision in insurance contract accounting as proposed in the Discussion Paper.** While we understand the FASB’s objectives underlying the Discussion Paper (transparency, comparability and decision usefulness), we believe existing GAAP meets those objectives and is well understood by the preparers and users of financial statements. If specific areas need to be addressed, we believe the FASB should target only those areas;
- **The building blocks model, while sophisticated and intellectually appealing, will result in catastrophe or event-driven losses, such as those arising from hurricanes, earthquakes and terrorist attacks, being recorded in financial statements before the underlying events take place and, in many cases, for events that may never take place during the coverage period, resulting in significant additional judgment and subjectivity involved in the financial statement preparation process that will impair consistency and comparability and provide less decision-useful information to the users of financial statements; and**
- **The estimated costs to implement the building blocks model for the property and casualty (re)insurance industry will be significant as the systems and data to meet the requirements do not currently exist and the cost to develop the systems and produce the data in a well controlled Sarbanes-Oxley Section 404 (“SOX 404”) compliant manner, in our opinion, will significantly exceed the perceived benefits.**

We appreciate your consideration of our comments on the Discussion Paper and look forward to having the opportunity to participate in the FASB roundtable on December 20, 2010. In the meantime, should you wish to discuss our comments in greater detail, please contact us at (441) 295-4513 or at jek@renre.com and maw@renre.com.

Sincerely,

/s/ Jeffrey D. Kelly
Jeffrey D. Kelly
Executive Vice President
Chief Financial Officer

/s/ Mark A. Wilcox
Mark A. Wilcox, CPA, CFA
Senior Vice President
Chief Accounting Officer and
Corporate Controller

QUESTIONS FOR RESPONDENTS

Definition and Scope

- 1. Are the proposed definitions of *insurance contract* and *insurance risk* (including the related guidance) understandable and operational?**

Yes.

- 2. If the scope of the proposed guidance on insurance contracts is based on the definition of an insurance contract rather than on the type of entity issuing the contract, would financial reporting be improved?**

Yes.

- 3. Do you agree with the proposed scope exclusions? Why or why not?**

Yes. However, we believe it is important to allow for the continued use of the fair value option under ASC Topic 825 *Financial Instruments* for (re)insurance contracts. For example, (re)insurance can be purchased in the form of a catastrophe bond or a catastrophe swap that pays based on industry losses, and under existing GAAP, these types of structures are typically accounted for at fair value and are often purchased by hedge funds or other capital market participants. Under the proposed new definition of an insurance contract and insurance risk, these contracts would likely be required to be accounted for as (re)insurance. We believe that it would be useful to allow for the continued use of the fair value option so these contracts could continue to be accounted for at fair value.

- 4. Should benefits that an employer provides to its employees that otherwise meet the definition of an insurance contract be within the scope of the proposed guidance? Why or why not?**

No comment.

- 5. The Board's preliminary view is that participating investment contracts should not be accounted for within the proposed model for insurance contracts but, rather, should be included in the scope of the proposed model for accounting for financial instruments. Do you agree? Why or why not?**

No comment.

- 6. Do you support the approach for determining when noninsurance components of contracts should be unbundled? Why or why not?**

Yes. If a component is not closely related to the insurance coverage specified in a contract it should be unbundled. That said, we would not anticipate that there would be any components in a property and casualty (re)insurance contract that would require unbundling.

Recognition and Measurement

7. Do you agree with the use of the probability-weighted estimate of net cash flows to measure insurance contracts? Does that approach faithfully represent the economics of insurance contracts? Is it an improvement over existing U.S. GAAP?

No. In relation to property and casualty (re)insurance contracts, we do not believe the probability-weighted estimate of net cash flows as defined in the Discussion Paper is an improvement over current GAAP.

Our main concern is that for property and casualty (re)insurance contracts that contain an element of catastrophe risk, the current definition of “probability-weighted estimate of net cash flows” would require losses associated with infrequent, but severe events to be recorded before the event giving rise to the loss has occurred. In many cases, the probability of these events occurring during the coverage period is remote, but the potential impact is severe, and as a result, all of the net cash flows associated with those risks would need to be reversed if the event did not occur. Since these events are remote, by definition, the most likely scenario is that the event will not occur during the coverage period and the net cash flows will need to be reversed by the end of the coverage period. However, although the events are remote, they are severe, and even on a probability weighted basis the net cash flows associated with these low frequency, high severity losses are material. If the event does occur during the coverage period the cash flows will likely deviate significantly from the expected outcome and will need to be adjusted significantly to the actual estimated losses.

For example, a nationwide provider of homeowners insurance contracts in the U.S., unless specifically excluded from its policy wording, is exposed to losses from hurricanes, earthquakes, floods, wildfires, freezes and other natural catastrophes. While the insurance contracts are exposed to the risk of losses from these events from the coverage effective date, under current GAAP, losses from these events are not recorded until the event giving rise to the loss occurs. For example, losses associated with a Florida hurricane are currently recorded under GAAP when the hurricane makes landfall and results in actual insurable losses. Under the proposed building blocks definition, an insurance company would need to model and estimate these infrequent, but severe losses and record these estimates as cash outflows in its net cash flows when the contract is bound and then reestimate these modeled expected losses at each subsequent reporting period. In addition, assuming the primary insurance company buys property catastrophe reinsurance coverage to cede all or a portion of this risk, it would need to record expected recoveries as net cash inflows when estimating its net cash flows for the property catastrophe reinsurance it purchases. Further, a reinsurance company that has provided the property catastrophe reinsurance coverage to the nationwide insurer would also have to model expected losses and record them in its estimate of net cash flows upon becoming party to the contract. Finally, a reinsurance company providing retrocessional reinsurance coverage for these risks to another reinsurance company would also need to record its estimate of these modeled expected losses.

We strongly believe that accounting for infrequent, but severe losses, such as hurricanes, earthquakes, terrorist attacks and other natural and manmade catastrophes in financial statements before the event giving rise to the loss has occurred does not provide decision useful information to users of financial statements. We strongly believe that if a building blocks model is used, that these cash flows should be estimated and included in the net cash flows *after* the event giving rise to the loss occurs. By requiring the accounting for modeled expected catastrophe losses in financial statements, rather than actual incurred catastrophe losses, we believe the financial statements will be less useful because the financial statements will contain significant judgments about events that have not occurred and may never occur during the coverage period. In addition, although there is considerable science around catastrophe modeling, individual companies and catastrophe risk modeling firms have very different views about these risks. The catastrophe models are changed frequently, use simulations to model extreme events that have not occurred, and while important to overall risk management, we believe these models are not appropriate for use in the preparation of general purpose GAAP financial statements. The significantly differing views of catastrophe risk among market participants will result in very different net cash flows between companies exposed to the same underlying risks. In addition, using outputs from these complex catastrophe simulations and models to prepare GAAP financial statements also raises questions of the ability of (re)insurance companies to maintain compliance with SOX 404, and for their auditors to audit these complex models.

Given the fact that the majority of (re)insurance contracts that contain these risks provide coverage for a one year period, and that the underlying premium prices these risks into the policy, we believe that an incurred loss model that utilizes an unearned premium approach during the pre-claims coverage period provides a greater degree of consistency and comparability and will result in the same result at the end of the coverage period as under the proposed building blocks approach. Under the proposed building blocks approach, these estimated modeled losses will be reversed at the end of the coverage period if the event does not occur. If the event does occur, under the proposed building blocks approach the estimated net cash flows will be trued up to the actual incurred losses. It is important to note that even if one were to use the modified measurement approach which is an incurred loss model, and eliminates the issue with recording catastrophe losses before they occur, that in order to get to the modified measurement approach the proposed standard currently requires the building blocks approach to be used for the onerous contracts test at inception and on an ongoing basis. As such, we believe modifications would need to be made to allow for profitable short-duration property and casualty (re)insurance contracts to go directly to the modified measurement approach.

8. Do you think that an entity's estimate of the net cash flows should include a risk adjustment margin?

No. We believe the use of a risk adjustment margin in GAAP financial statements will add an unnecessarily subjective calculation that will further impair consistency and comparability. It is also a non-cash item that will reverse over the settlement of the net cash flows and will end up being \$nil by the time the contractual cash flows are fulfilled. We do not believe the use of a risk adjustment margin improves GAAP.

9. Is the objective of the risk adjustment margin understandable? If so, do you think that the techniques for estimating the risk adjustment margin (see paragraph 52(b)), faithfully represent the maximum amount that the insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected?

No. We believe the risk adjustment margin definition when combined with probability weighted expected future cash flows and discounting implies an exit value or fair value model for insurance accounting rather than a contractual fulfillment model. Insurance contracts are not traded. The cash flows associated with the rights and obligations of an insurance contract are settled between the (re)insurance company and the policyholder at nominal values, not risk adjusted discounted values. Even when an insurance company enters into a reinsurance contract to cede a portion of its risk to a third party the insurance company is legally still a party to the underlying insurance contracts and is required to continue to service its policies and settle all claims.

We believe the techniques used to estimate the risk adjustment margin will result in a wide degree of variation between (re)insurers. For example, excess of loss reinsurance contracts generally have a “fat tail” both on an expected basis and also after a claim has been incurred. The net cash outflows (i.e. claims) can only go as low as \$nil, but given the sizable limits of protection provided they can be a very large amount. This results in an inherent skewness of outcomes where at the mean you are above the median. As such, we believe the first two techniques suggested may not be appropriate for estimating a risk margin. In addition, there is no guidance on the confidence level. For example, if a distribution were able to be constructed around the expected net cash flows the outcome for calculating a risk adjustment margin using a confidence level at the 75th, 90th, 95th, 99th, 99.5th or 99.8th percentile would presumably have very different results.

10. Do you think that the risk adjustment margin would be comparable for entities that are exposed to similar risks?

No. The risk adjustment margin is a highly subjective calculation, it is not currently a concept that is used in practice, lacks specificity and we believe that it would likely be applied inconsistently between companies and impair consistency and comparability.

11. Do you agree with the description of cash flows that should be included in the measurement of an insurance contract? Is the proposed guidance operational?

No. Please refer to comments with respect to Question 7.

In addition, we believe that accelerating the recognition of the net cash flows to the point that precedes a (re)insurance contract’s contractual effective date introduces unnecessary operational complexity. Most reinsurance contracts are agreed to in principle prior to the inception of the coverage period. The process typically involves a lengthy negotiating process, the cedant then putting out firm order terms, a reinsurer then authorizing to provide coverage at those terms, and the cedant then confirming the authorization. During this process the price, coverage and terms typically change. Once the cedant confirms the

authorization then both parties are bound to the coverage. In certain jurisdictions the pre-contract date terms might be memorialized in a “slip”. The timing of being bound to a contract is almost always in advance of the coverage effective date. This time period might be measured in days or, on exception, where an insurance company wants to lock up its reinsurance capacity in advance, could be measured in months and possibly up to one year or more in advance of the coverage effective date. During the period of time when the counterparties are bound, but the coverage period has not yet commenced, neither party is on risk or required to perform any services contemplated in the contract.

While we agree that once both parties are bound to the contract terms that if either party has an unprofitable contract the loss associated with that contract should be recognized, we do not believe it is appropriate to recognize the contract in the financial statements (other than if it is a unprofitable) until the later of the contract effective date or the period of time in which either party is required to stand ready and provide coverage for the risks in the contract. Accounting systems today don’t capture the necessary information until the contract effective date. In addition, there is considerable subjectivity as to when the contract could be bound compared to the coverage effective date which is a fixed and determinable date at which point both parties are required to perform services. Moving to a date that precedes the coverage effective date will result in decreased comparability and consistency between companies. In addition, assuming a profitable contract, since all of the cash flows will net to \$nil we see little added benefit to the users of the financial statements by accelerating the recognition of the net cash flows to a date the precedes the coverage effective date.

12. Do you agree that the carrying amount of all insurance contracts should be discounted if the effect is material? Do you agree with the proposed guidance on the discount rate that should be used to measure the carrying amount of insurance contracts? If not, which discount rate should be used?

No. For non-life (re)insurance contracts we believe in accounting for the contractual cash flows on a nominal basis. The cash flows associated with the rights and obligations between a (re)insurance company and the policyholder are fulfilled based on nominal, not discounted, cash flows. We do not consider investment income when pricing our (re)insurance policies and one hundred percent of any discount recorded in the financial statements will reverse and be \$nil when the cash flows are ultimately settled. As such, we do not believe in discounting property and casualty net cash flows. The accounting for a property and casualty (re)insurance company’s reserves should be decoupled from the accounting for the use of the proceeds a (re)insurance company receives from its net cash flows (i.e. investments). While we support full fair value accounting for investments in large part because there is an active market for these assets and they are traded, as well as supporting the elimination of accumulated other comprehensive income and requiring that the entire change in fair value of investments be recorded in earnings, we believe that a true contract fulfillment model for (re)insurance contracts should be used.

We believe that discounting property and casualty reserves will add additional non-cash subjectivity to the financial statements of (re)insurance companies. Discounting requires the estimation of not only the amount, but the timing, of the cash flows. In the property and

casualty (re)insurance business the timing of the cash flows is uncertain. Introducing discounting will increase subjectivity, create unnecessary complexity, result in the addition of significant additional capital to (re)insurance company balance sheets that is not tangible and will not be realized, and has the potential to further impair consistency and comparability between companies. We believe that most users of financial statements will back out the discount as well as any movement in the change in the discount from period-to-period when assessing the financial condition and performance of a (re)insurance company, requiring preparers and users to provide and use additional non-GAAP metrics.

Applying discounting to the average Bermuda-based reinsurance company which has an average ratio of reserves to shareholders' equity of 1.5:1, a five-year duration with respect to the payout of its reserves (high level estimate), and average shareholders' equity of \$4 billion, would have a significant impact. For example, assuming a long-term five-year risk free rate of 4% and a 1% illiquidity premium, the impact of discounting will decrease liabilities and increase shareholders' equity by approximately 32% or \$1.3 billion for a company with shareholders' equity of \$4 billion company. Assuming the risk free rate moves by 1% from one reporting period to the next, in this example, the company's net income will move by approximately 6% of its undiscounted shareholders' equity or \$230 million. In this high level example, the impact of discounting at inception and at each reporting period for the 15 companies that make up the sample used in this example would be measured in billions. We believe that under these reasonably likely assumptions and reasonably likely changes in the discount rate, decreasing reserves, increasing capital and causing material swings in the results of a (re)insurance company from period-to-period for non-cash items that will ultimately reverse as the cash flows are settled at their nominal contractual amounts does not improve the consistency, comparability or the decision usefulness of the financial statements.

Finally, adding an illiquidity premium to the discount rate for the valuation of liabilities could have unintended consequences. As the liabilities become less liquid the illiquidity premium presumably goes up which will result in the liability going down and gains being reported in earnings. This concept seems similar to the use of non-performance risk in the valuation of liabilities which we believe impaired the decision usefulness of the financial statements of financial guaranty companies during the credit crisis.

13. Do you think that acquisition costs should be included as one of the cash flows relating to the contract? If not, how would you account for acquisition costs?

Yes.

14. Do you agree that acquisition costs included in the cash flows used in the measurement of the insurance contract should be limited to those that are incremental at the individual contract level? If not, which acquisition costs, if any, would you include in the measurement of the insurance contract?

Yes.

15. Do you agree with the use of either the composite margin approach or two-margin approach to measure the net insurance contract? Does either approach faithfully represent the economics of insurance contracts? Is either approach an improvement over the measurement used in current U.S. GAAP?

No. We do not believe that either approach improves GAAP. If we had to choose between the two alternatives we would prefer the composite margin approach. It enhances consistency and comparability over the two-margin approach.

16. Do you think that the composite margin should be recognized in earnings in subsequent periods using the ratio described in paragraph 83? If not, how would you recognize the composite margin in earnings?

No. We believe that for non-life contracts the composite margin should be recognized pro-rata over the coverage period. The coverage period is the period of time the (re)insurance company is providing risk protection which is what the policyholder is paying for. The actual payment of claims is purely an ancillary administrative function which we do not believe should impact the timing of the recognition of earnings.

17. Do you agree that interest should not be accreted on the composite margin? Why or why not?

Yes. Accreting interest on the composite margin adds additional complexity and subjectivity into the financial statement preparation process and would not improve the decision usefulness of the financial statements. Accretion of interest on the composite margin brings in another non-cash item into the financial statements that unwinds to \$nil over time.

18. Do you think that all insurance contracts should be recognized and measured using one approach or that some insurance contracts should be recognized and measured using an alternative approach (for example, the modified approach)? Why or why not?

There are distinct differences between life (re)insurance contracts and property and casualty (re)insurance contracts. Current GAAP has developed over several decades, resulting in the emergence of a number of separate and unique accounting models that address short-duration contracts, long-duration contracts, reinsurance contracts and multi-year retrospectively rated (re)insurance contracts, among others. These products are different and the accounting models have emerged over time to meet the needs of the users and preparers of the respective financial statements. We believe that current GAAP provides appropriate guidance to prepare meaningful and useful financial statements for both short-duration contracts and reinsurance contracts.

19. If an alternate approach is required for some insurance contracts, what recognition, measurement, and presentation provisions should be applied (including those items noted in paragraph 106)?

We believe the current GAAP guidance for both short-duration contracts and reinsurance contracts which uses an incurred loss model and an unearned premium approach in the pre-claims period is appropriate. We also believe this model is widely used outside of the U.S. for short-duration property and casualty (re)insurance contracts and is well understood by preparers and users of financial statements. The modified measurement approach is somewhat similar to the model for short-duration contracts under current GAAP, although we believe if one were to proceed with this approach some additional clarification would be helpful. For example, we believe that the modified measurement approach which uses an incurred loss model should be expanded for use with all short-duration property and casualty (re)insurance contracts and not contain the approximately one year bright line rule. In addition, as noted above we do not believe the net cash flows should be discounted and that the composite margin should be recognized ratably over the coverage period. We also believe that requiring the buildings block approach to be used to perform the onerous contracts test to qualify for the modified measurement approach defeats the purpose of the modified measurement approach as both approaches will need to be completed at each reporting period.

20. Do both the building-block approach and the modified approach (with the latter approach applied only to certain short-duration contracts) produce relevant and decision-useful information? Why or why not?

No. Our fundamental concern is that the additional complexity and subjectivity that arises from these models will impair consistency and comparability between companies. Under current GAAP, by far the most significant judgment made by the management of a (re)insurance company is the estimate of the ultimate settlement and administrative costs for unpaid claims and claim expense arising from (re)insurance contracts issued (i.e. reserve for claims and claim expenses). The proposed building blocks approach will introduce the following additional judgments into the financial statement preparation process:

- a. Estimates of cash flows for infrequent, but severe events that could occur, but have not yet taken place;
- b. Timing of cash flows;
- c. Discount rates by currency;
- d. Illiquidity premiums by currency; and
- e. Risk margins by portfolio.

Any one of these new judgments is significant and will have a material impact on the financial condition and performance of a (re)insurance company. While we do not support changing current GAAP in a significant way, we do believe that if the FASB were to move forward with the IASB that the ability to use the modified measurement approach for property and casualty short-duration (re)insurance contracts when combined with a

composite margin will enhance consistency and comparability between companies when compared to the two-margin building blocks approach.

21. How should the scope of insurance products for each approach be defined (for example, duration of coverage period, duration of claims payment period, or type of insurance)?

We believe the short- and long-duration definitions as provided for in ASC Topic 944 *Financial Services – Insurance* are clear. We do not think a bright line approximately one year rule should be used. While most property and casualty (re)insurance contracts provide coverage for one year, there are times when the coverage period is longer. For example, risks attaching to proportional reinsurance contracts that provide coverage for underlying annual insurance policies may not meet the approximately one year definition as the contract would be in force for a two year period. In addition, some insurance companies aim to lock up reinsurance capacity for up to three years. We do not believe the accounting for these types of contracts should differ from the accounting for contracts that have a one year coverage period, as the underlying risks are the same.

22. Are there specific types of insurance contracts for which the approaches would not provide decision-useful information?

Yes. Short-duration property and casualty (re)insurance contracts.

23. What are the implications of the recent U.S. healthcare reform to the application of the proposed contract boundary principle, including whether health insurance contracts written under the new reforms would meet the conditions in the proposed guidance to be accounted for under the modified approach?

No comment.

24. What other changes should be considered to both improve and simplify U.S. GAAP for short- and long-duration insurance contracts?

The targeted changes noted on pages 3 and 4 of the Discussion Paper would improve and simplify GAAP with the exception of discounting for short-duration contracts.

25. What are the incremental costs of adopting the alternatives described in this Discussion Paper? Please separately describe one-time costs and ongoing costs.

The estimated costs will be very significant. Implementing the guidance outlined in the Discussion Paper will result in costs associated with making fundamental changes to our underlying (re)insurance accounting and reserving systems and financial reporting processes. In addition, our underwriting, risk management and modeling systems which are currently out of scope for SOX 404 will need to be rebuilt to be SOX 404 compliant. Further, we will need to hire actuaries and risk modelers in the finance function to assist with the calculations and financial statement preparation process. Finally, we would expect that our internal and external audit costs and fees will increase, perhaps significantly. Overall, while we don't

have a precise estimate we believe the upfront and recurring costs associated with the changes described in the Discussion Paper will exceed our original overall upfront and recurring annual SOX 404 costs.

Reinsurance

26. The scope of the proposed guidance includes reinsurance contracts that an insurer issues or acquires. However, insurance contracts held directly by other policyholders would be excluded from the scope of the proposed guidance. Do you agree with this exclusion? Why or why not?

Yes. The scope of the Discussion Paper should apply to all assumed and ceded reinsurance contracts. We do not have a point of view on whether the standard should address policyholder accounting.

27. Should there be symmetry between the recognition and measurement of reinsurance contracts and the underlying contract ceded?

Yes. Allowing a ceding company the ability to recognize a gain upon entering into a reinsurance contract may result in the use of reinsurance contracts for accounting benefits. We believe there may be unintended consequences as a result of this which would represent a step back in reinsurance accounting and should not be allowed.

Overall, we believe the accounting for reinsurance contracts is complex, tends to involve large transactions that are material to a (re)insurance company's financial statements, and that the new guidance as written may not yet be sufficient to satisfy the needs of preparers, auditors and users of financial statements. We believe the fact that a stand-a-lone standard exists in current GAAP to assist companies in accounting for reinsurance contracts is indicative of the need for additional guidance for these complex transactions and that the standard as proposed would not improve current GAAP.

In addition, we believe that if the proposed standard moves forward that the accounting for reinsurance contracts should follow the accounting for the underlying policies being reinsured. For example, the accounting model should "look through" and follow the underlying risk so if short-duration property and casualty insurance contracts are reinsured then the accounting for the reinsurance contract should follow the model for the underlying short-duration property and casualty insurance contract. For example, if both the building blocks approach and the modified measurement approach move forward we would want to ensure that a reinsurance contract could not change the accounting for the underlying insurance risks. We believe this will help limit the potential for abuse that could arise out of contractual terms in a reinsurance contract being written such that the accounting model for the reinsurance contract differs from the underlying insurance contracts being reinsured.

For example, assume a U.S. property and casualty insurance company writes one year policies for homeowners' coverage in the State of Florida. Assuming the contracts are profitable one year policies, the insurance company would use the modified measurement

approach to account for them under the proposed new guidance. During the pre-claims period under this model, losses would be measured based on actual incurred losses. As such, there would be no recording of expected hurricane catastrophe losses. Rather, hurricane related catastrophe losses would be recorded after a hurricane giving rise to these losses has occurred. If the same insurance company also entered into a one year 50% quota share reinsurance contract on a risks attaching basis to cede a 50% proportional amount of its underlying insurance contracts, the reinsurance contract would be measured under the building blocks approach as it would not meet the approximately one year definition (or if the reinsurance contract was for a period longer than approximately one year). Under this approach, the insurance company would record and recognize in its estimate of net cash flows from the reinsurance contract the expected modeled recoveries from the hurricane losses in addition to the underlying attritional losses. This would create a mismatch between the accounting for the underlying insurance risk assumed and the accounting for the reinsurance contract that is ceding 50% of the risk. The insurance company would be recognizing the benefit of the recoveries for the event driven hurricane losses before those losses have occurred. We believe this potential mismatch could be abused and would distort the underlying financial performance of the insurance company's results.

Presentation and Disclosure

28. The margin presentation approach highlights the changes in the insurance liability, rather than the current approach in U.S. GAAP, which presents, among other items, premium revenues, benefits paid, operating costs, and changes in loss estimates. Would this change improve your understanding of the performance of an entity that provides insurance (for some types of insurance or for all)? Please explain.

No. The current model is well understood. A model that excludes the presentation of the nominal cash flows between the two counterparties in a (re)insurance contract from the face of the financial statements does not increase the transparency or decision usefulness of the financial statements.

29. Should insurance contracts measured under the building-block approach be presented using a margin presentation approach or a premium presentation approach that would require a true-up amount as described in paragraph 119 (for example, the written allocation presentation approach or the allocated premium presentation approach)?

We believe the premium presentation approach should be used as this model is well understood and provides transparency with respect to the cash flows between the two parties to the (re)insurance contract. In addition, we believe reporting the balance sheet accounts on a gross basis provides much more meaningful information to the users of the financial statements compared to reporting all the balances net.

30. Should short- and long-duration (or nonlife and life) contracts be presented in a similar manner even if such contracts are measured under different approaches?

No comment.

31. Do you agree with the proposed disclosures in the IASB's Exposure Draft? Why or why not? If not, what would you recommend and why?

No. The existing disclosures in GAAP, combined with the requirements of the Securities and Exchange Commission and current practice, provide useful and transparent information to the users of financial statements.

Additional Question for Respondents

32. After considering your views on the specific issues contained in this Discussion Paper and the IASB's Exposure Draft, what do you think would represent the most appropriate improvement to U.S. GAAP?

- a. Pursue an approach based on the IASB's Exposure Draft?**
- b. Pursue an approach based on the IASB's Exposure Draft with some changes? Please explain those changes.**
- c. Pursue an approach based on the Board's preliminary views in this Discussion Paper?**
- d. Pursue an approach based on the Board's preliminary views in this Discussion Paper with some changes? Please explain those changes.**
- e. Make targeted changes to address specific concerns about current U.S. GAAP (for example, items included in paragraph 7)? Please describe those changes.**

E. We strongly urge the FASB to make targeted changes to address specific concerns about current GAAP rather than rather than a comprehensive revision in insurance contract accounting as proposed in the Discussion Paper. Current GAAP is well understood by preparers, users and auditors and provides useful, transparent, consistent and comparable information to the users of the financial statements of short-duration property and casualty (re)insurance companies. As a reminder, our comments are exclusively focused on short-duration property and casualty (re)insurance contracts.

Finally, although we have European operations and are currently in the process of complying with the requirements of Solvency II, which contains many of the building blocks concepts noted in the Discussion Paper, we believe the users of general purpose GAAP financial statements are different (creditors and investors) than the users of regulatory or statutory financial statements (regulators) and as such the standards should be different as they serve a different purpose.