Treva A. Myers, ACAS, MAAA, CPCU

387 S. 46th Street

West Des Moines, Iowa 50265

October 16, 2013

Technical Director

File Reference No. 2013-290

Financial Accounting Standards Board

401 Merritt 7

PO Box 5116

Norwalk, CT 06856-5116

Re: FASB File Reference Number 2013-290: Proposed Accounting Standards Update - Insurance Contracts (Topic 834)

I am an Associate of the Casualty Actuarial Society and a member of the American Academy of Actuaries. I have, also, earned the CPCU (Chartered Property Casualty Underwriter) designation through the American Institute for Chartered Property and Casualty Underwriters. I have over 15 years of experience working in the actuarial profession with a total of 22 years in the insurance industry. I have reviewed the proposed guidance in the exposure draft and believe the proposed standards will be detrimental to companies, the industry and users of financial statements.

I will only be referring to the impact of the exposure draft on property-casualty insurance. In general, I believe the proposed changes are not an improvement over the current standard and contain some serious issues as I will outline below.

One of the main objectives of the new standard is to provide comparability regardless of the type of entity issuing the contract. Currently, the P&C industry reports by business segment. Under the revised standards, entities will report by portfolios with somewhat ambiguous guidance on how to create the portfolios. In my opinion, grouping by portfolios will result in financial statements that will not be comparable between entities, because the construction of portfolios will vary by company. Also, requiring contracts be grouped into portfolios does not agree with the 'traditional' property-casualty calendar-accident year measures; because those cash flows do not match identical contracts. In addition, grouping by portfolios does not align with how companies manage their business and measure profitability.

I have concerns about the "unbiased probability weighted estimate (mean)" cash flow measurement objective. It makes no provision for recognizing the uncertainty of potential outcomes including negative outcomes, it supports minimal adequate reserves and increases the risk of solvency, it is not consistent with statutory accounting, and it increases the differences between statutory and GAAP accounting. Also, it is not consistent with the sound reserving practices recommended by rating organizations like AM Best and insurance regulators. Lastly, it does not account for where evolving ERM practices may reveal a more optimal target.

I feel for several reasons that the proposed changes are not an improvement over current GAAP short-duration contract guidance. It decreases the useful information for financial statement decisions and decreases comparability of financial statements between companies. Both effects are due to excessive complexity caused the requirement to discount cash flows or more specifically, uncertain cash flows. Discounting uncertain cash flows distorts true performance, is costly to implement and most stock analysts prefer to do their own discounting.

The requirement for earned premium to be earned proportionally to the incurred loss pattern is an unnecessary complication when all contract premium will generally be earned within one year. Plus, most companies' systems are set up to earn premium uniformly over time. So, to change this would be extremely costly to companies. My opinion would be that there is an unnecessary increase in costs with little additional value.

In summary, I recommend that the Board retain the current accounting standards for short-duration contracts and not adopt the guidance contained in the Exposure Draft.

Thank you,

Treva Myers

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