



October 23, 2013

Submitted via email (director@fasb.org)

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RE: File Reference Number 2013-290

Ladies and Gentlemen:

We appreciate the opportunity to comment on Proposed Accounting Standards Update 2013-290 *Insurance Contracts* (PASU 2013-290). Mutual of Omaha provides life and health insurance and annuity products and banking services throughout the United States. We support the FASB's efforts to develop high quality accounting standards that are converged with International Financial Reporting Standards (IFRS). We also appreciate the FASB's goal to improve US GAAP, but we do not believe that the proposal improves US GAAP sufficiently to overcome the costs associated with implementation, particularly in view of the fact that, as written, multiple important facets of US GAAP and IFRS related to insurance contracts will remain diverged, resulting in continued lack of comparability between the two accounting bases.

We believe that this guidance, if implemented as written, will entail substantial implementation costs. Implementation of this proposal will not only be onerous in terms of time and work effort, but it will also require expensive valuation model changes or outright model replacements. The proposed new guidance will also cause the re-recognition and remeasurement of acquisition costs even though the FASB issued guidance addressing this topic effective last year. Irrespective of these beliefs, we offer comments in this letter concerning certain specific issues within the proposal, and as a member of the American Council of Life Insurers we also support the comments made by them in their separately issued comment letter.

Questions 5 – 7 Measurement Models

We do not agree that the premium allocation approach should be required for contracts with a coverage period of one year or less, or for contracts for which, at inception, it is unlikely that during the period before a claim is incurred there will be significant variability in the expected value of the net fulfillment cash flows. Many life insurance companies, including Mutual of Omaha, only issue contracts that meet the definition of long-duration contracts under GAAP. Under the proposed guidance, most would be measured using the building blocks approach, but a small number would be required to be measured under the premium allocation approach because the coverage period of the contracts is one year. Nevertheless, these contracts generally persist for many years. The requirement to use two different models creates the unnecessary cost of

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developing or purchasing an additional model and adds unneeded complexity to the financial statements.

We believe that using the building blocks approach alone to measure such contracts and recognize revenue is consistent with the economic substance of those contracts. We recommend that the proposed update be converged with the IASB's approach by making the use of the premium allocation approach optional. Such an approach would alleviate the need for additional valuation models without significantly altering the presentation of the economics of the contracts.

Question 16 Discount Rate Changes

We believe the proposal creates a significant accounting measurement mismatch. The proposal requires an entity to present changes in the measurement of the fulfillment cash flows caused by changes in the discount rate in other comprehensive income. Requiring, rather than permitting, the reporting of changes in the discount rate in other comprehensive income has the potential to create significant income statement volatility that does not reflect the extent to which the entity has managed the interest rate risk exposure between its insurance contract liabilities and the assets that support those liabilities.

Depending on the measurement model required for the assets supporting a portfolio of insurance contracts under the FASB's Proposed Accounting Standards Update 2013-220 *Recognition and Measurement of Financial Assets and Financial Liabilities*, changes in the value of certain structured securities caused by changes in prevailing market interest rates would be required to be presented in net income while the corresponding changes in the discount rate used for the insurance contract portfolio those securities support would be presented in other comprehensive income.

To eliminate this measurement mismatch, we propose either that the insurance contracts guidance permit an entity the option of presenting the effects of changes in the discount rate on the measurement of fulfillment cash flows in net income or other comprehensive income, or that the financial instruments recognition and measurement proposal provide criteria to permit investments held in support of long-duration insurance liabilities to be measured at fair value with changes in fair value presented in other comprehensive income.

Question 28 and 29 Recognition of Certain Qualifying Acquisition Costs

We believe the exclusion of direct response advertising from qualifying acquisition costs creates different accounting for economically similar transactions. Insurance contracts are managed based on the performance of groups of similar contracts. The FASB has recognized this in PASU 2013-290 by identifying the unit of account as a portfolio of insurance contracts and recognizing revenue through the boundary of the contracts within the portfolio as the issuer of the contracts is released from the risk of the portfolio. The contract issuer recognizes that insurance risk will be realized differently for each contract, that is, the fulfillment cash flows will differ from contract to contract, causing some contracts, if measured individually, to appear to be profitable and some to appear to be unprofitable. Nevertheless, revenue is appropriately recognized on the portfolio as a whole, and not on the individual contracts, because the profitability is based on the pooling of risk across the portfolio and not based on the risk of any single contract within the portfolio. Further, a rational issuer of a portfolio of contracts determines pricing for the contracts within the

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portfolio such that the portfolio as a whole provides sufficient profit, after the consideration of all costs of acquiring that portfolio, to provide its investors with a return commensurate with their risk. The issuer's assessment of the profitability of the portfolio therefore must include all costs directly related to that portfolio, including the costs of acquiring it.

For an issuer's contracts acquired using direct response advertising, the costs of that advertising are a direct cost of acquiring the portfolio. The costs are incurred to acquire the entire portfolio of contracts and the issuer would not incur those costs but for the effort to acquire the portfolio of contracts. We believe that existing guidance in Accounting Standards Codification (ASC) topic 340-20 correctly concludes that where an issuer uses direct response advertising to sell insurance contracts and through its own experience is able to demonstrate that those contracts will be profitable after consideration of the direct response advertising costs incurred to acquire them, those direct response advertising costs should be deferred in order to properly match them against the revenues they generate.

While for many industries and transactions the deferral of advertising costs may not be appropriate because revenue is recognized at the point of sale, for insurance contracts such costs replace the commissions paid to acquire other insurance contracts, and the revenue generated by the contracts sold is recognized over future periods. Direct response advertising and commissions both represent costs paid exclusively to acquire a portfolio of insurance contracts. To recognize commission costs over the period that revenue is recognized but to expense direct response advertising costs immediately results in different accounting for transactions that are economically the same. We believe the existing direct response advertising recognition guidance in ASC 340-20-25-4 already appropriately addresses this issue and should be retained for insurance contracts such that direct response advertising costs would constitute qualifying acquisition costs.

Summary

In summary, we urge you to consider whether Proposed ASU 2013-290 provides sufficient benefits to overcome its significant cost of implementation. If you determine that it does, we appreciate your careful consideration of our comments and recommendations to improve it. Should you have any questions about our comments, please contact Devin Brown, Director, Accounting Research and Compliance at 402-351-6212.

Very truly yours,



David A. Diamond
Executive Vice President,
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