From: Sander, Shanda - RMA
Sent: Friday, March 25, 2016 12:52 PM
To: FASAB
Cc: Erny, Margo - RMA; Close, Kevin - OCFO; Kindle, Alexandria - OCFO; RMA - RMA-CFO-KC; Gilliam, Robin
Subject: Response to FASAB Exposure Draft - Insurance Programs

Attached is USDA - RMA's responses to the Insurance Programs exposure draft. If you have any questions or need additional information, please contact me at 816 926-2654.

Thanks

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All responses are requested by March 29, 2016.

Q1. The definition for an insurance program (par. 9) identifies the fundamental nature of these programs. The substance and not the name of a program will determine if it is an insurance program and therefore subject to these standards.

Do you agree or disagree with the definition of an insurance program? Please provide the rationale for your answer.

RE: Agree, it should be authorized by law, not a loan, and assume at least part of the risk but not necessarily the entire risk.

Q2. Additional new terms were introduced (par. 10–25) in order to provide definitions needed to consistently report on insurance programs.

a. **Do you agree or disagree with the proposed definition of each term? Please provide the rationale for your answer.**

RE: Agree, especially important is the definition for Liabilities for Losses on Remaining Coverage, this is much better language than our agency had previously been using (Premium Deficiency Reserve). This should assist readers of the financial statements with understanding what this line item represents.

b. **Do you agree or disagree that the additional terms will assist insurance programs in producing consistent reporting? Please provide the rationale for your answer.**

RE: Agree, the definitions will assist agencies and readers with understanding and comparing results and line items across different agencies.

Q3. Insurance Programs are to be classified in one of the three categories defined in par.15, 22, and 23: Exchange Transaction Insurance Programs other Than Life Insurance, Life Insurance Programs, and Nonexchange Transaction Insurance Programs.

Do you agree or disagree with these categories? Please provide the rationale for your answer.

RE: Agree, Life Insurance needs to be split out because the accounting for liabilities is different than the other two programs, and Non-exchange transaction need to be split out because they account for revenue differently than the other two programs.

Q4. New standards were introduced (par. 26-43) for exchange transaction insurance programs other than life insurance. These programs will be required to recognize a liability for losses on remaining coverage. The liability for losses on remaining coverage has been separated from the liability for unpaid claims to address the uncertain nature of losses on contracts open beyond the end of the reporting period. Insurance programs must first use the expected cash flow model to estimate these future losses. However, there are various methods to estimate cash flows and probabilities. To the extent that a method explicitly or implicitly incorporates the characteristics of expected cash flow, then its use is consistent with this Statement. One member expressed concern in that expected cash flow may be too limiting to allow other methods currently in use to continue to be used for estimating future cash flow in. (See Basis for Conclusion par. A17)

a. **Do you agree or disagree that the recognition guidance for exchange transaction insurance programs other than life insurance (par. 27-39) is clear and appropriate? Please provide the rationale for your answer.**

   RE: Agree.

b. **Would the expected cash flow approach (par. 35-37) prevent use of any methods you believe should be used? Please provide the rationale for your answer.**

   No, par. 36 and 37 seems to give some leeway on other methods and would allow us to continue to use the same methodology for predicting losses.

c. **Would the measurement standard (par. 35-37) allow the method currently used by your entity to estimate future losses continue to be used? Please provide the rationale for your answer.**

   Yes, we would be able to continue using our current methodology for predicting losses.

d. **Do you agree or disagree with the disclosures for the exchange transaction insurance programs other than life insurance (par. 40-43)? Please provide the rationale for your answer.**

   RE: Overall agree. There is some confusion about whether or not par. 43 includes liabilities for losses on remaining coverage since recognition and measurement for exchange transaction insurance programs other than life insurance are divided up into liability for unpaid insurance claims (par. 29) and liability for losses on remaining coverage (par. 33). RMA believes par. 43 to calculate the liability balance for unpaid insurance claims should also include the liability for losses on remaining coverage but due to the wording, this may not be clear. Please consider adjusting the wording to include liability for losses on remaining coverage.

Par 42, item g - Agree in theory overall, but would like clarification.

Is the amount of insurance in force the balance at end of the period or in effect during the period? If a full claim was paid on a policy, the insurance period ends once paid so the insurance may not be in force as of 9/30. It would be more meaningful and easier to determine the amount in force during the period.

The sentence regarding the explanation is confusing and may be missing the word "not" more than a remote likelihood. Suggest rewording to say: "Include an explanation on the amount of claims paid or projected to be paid in relation to the total amount of insurance in force."

Q5. New standards were introduced (par. 44–53) for nonexchange transaction insurance programs.

a. **Do you agree or disagree that the recognition guidance (par. 45-49) for nonexchange transaction insurance programs is clear and appropriate? Please provide the rationale for your answer.**

RE: Agree with theory as presented, RMA does not do this type of insurance.

b. **Do you agree or disagree with the disclosures for the nonexchange transaction insurance programs (par. 50-53)? Please provide the rationale for your answer.**

RE: Agree with theory as presented, RMA does not do this type of insurance.

Q6. New standards were introduced (par. 54–68) for life insurance programs.

a. **Do you agree or disagree that the recognition guidance (par. 55-64) for life insurance programs is clear and appropriate? Please provide the rationale for your answer.**

RE: Agree with theory as presented, RMA does not do this type of insurance.

b. **Do you agree or disagree with the disclosures for the life insurance programs (par. 65-68)? Please provide the rationale for your answer.**

RE: Agree with theory as presented, RMA does not do this type of insurance.

Q7. New disclosures were introduced (par. 69) for the consolidated financial report of the U.S. Government.

Do you agree or disagree with the disclosures applicable to the consolidated financial report of the U.S. Government (par.69)? Please provide the rationale for your answer.

RE: Agree in theory overall, but would like clarification on item e.

Is the amount of insurance in force the balance at end of the period or in effect during the period? If a full claim was paid on a policy, the insurance period ends once paid so the insurance may not be in force as of 9/30. It would be more meaningful and easier to determine the amount in force during the period.

The sentence regarding the explanation is confusing and may be missing the word "not" more than a remote likelihood. Suggest rewording to say: "Include an explanation on the amount of claims paid or projected to be paid in relation to the total amount of insurance in force."

Q8. The Board proposes that the requirements of this Statement are effective for reporting periods beginning after September 30, 2017.

Do you agree or disagree? Please provide the rationale for your answer.

RE: RMA would like to know if early adoption will be permitted. Also, how will comparative statements be handled? Guidance as to whether this is a change in estimate, change in accounting policy, whether the previous year should be re-calculated with the new standard or handled prospectively would be helpful to the agencies affected by this standard.