From: Osborne, Christopher
Sent: Monday, March 28, 2016 2:57 PM
To: FASAB
Cc: Conklin, Jeanne; O'Connor, John; Washington, Lorna; Westermann, Tai-Fang
Subject: EPA Response to Review of Exposure Draft "Insurance Programs"

The EPA is pleased to provide the attached response to questions 1-8 in the Exposure Draft.

Please contact me if you have any questions regarding this response.

Thank you.

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Statement of Federal Financial Accounting Standards
Exposure Draft (ED) – Insurance Programs
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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.

Agree.
The Board has worked with the task force members since 2014 on a revision to the definition of an insurance program. The definition in paragraph 9 is presented within the scope of a risk assumed subject.

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.

Agree.
In June 2013, the Board decided to separate risk assumed into three phases: I-Insurance Programs, II-Entitlement Programs, and III-Other risk areas. The EPA believes the definitions explain the meaning of important accounting terms and, in paragraphs 10–25, helps users understand the meaning of Phase I-Federal insurance programs.

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.

Agree.
Financial statements issued by federal entities must be reliable and fully disclose all relevant and significant information. The additional terms help agencies to comply with reporting requirements and produce consistent reporting.

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 Non-exchange Transaction Insurance Programs.

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

Agree.

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The three categories of insurance under the proposal provide concise and clear information about the operating performance of insurance programs and the risk of loss to the federal government from adverse events.

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.

Agree.
The exchange revenue insurance programs collect premiums through contracts/agreements to cover loss risks from adverse events. Thus, agencies should record premiums when earned as revenue and a liability in the account unearned premium revenue over the contract term. Furthermore, SFFAS 7 identifies whether a transaction is exchange or non-exchange including the related timing and recognition of revenue, and SFFAS 5 governs when the associated loss becomes a liability.

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.

The EPA supports the proposed mode in the ED. The expected cash flow approach, differs from the discounted cash flow (DCF) method. The DCF utilizes a single set of estimated cash flows and a single discount rate, which attempts to adjust the estimate of future results to reflect the many varied inherent risks and uncertainties. Moreover, the FASB introduces the expected cash flow approach focusing on explicit assumptions about the range of possible estimated cash flows and their respective probabilities in its Concepts Statement No. 7- Using Cash Flow Information and Present Value in Accounting Measurements.

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.

An expected cash flow method to estimate future losses does not apply to the EPA. EPA does not have exchange transaction insurance programs.

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.

Agree.
Accrual accounting requires entities to record transactions in the time period in which financial events occur. The EPA believes disclosures would focus materiality that should be presented regarding exchange transaction insurance programs. The EPA also believes other factors should be considered in making judgments about related exposure to risk. This information should be in the footnotes and agencies should include short and long-duration contracts in separate portfolios according to their similar characteristics.

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

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

Agree.
The EPA believes that non-exchange transactions need to be tracked separately because losses are only recognized when they occur. However, the Board needs to add that Federal entities should report the subsequent events to Treasury for the consolidated financial report (CFR) of the U.S. Government.

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

Agree.
The accompanying footnotes are an integral part of the consolidated financial statements and the information provided should be useful to users and stakeholders. Nevertheless, the EPA recommends additional guidance on how to provide references to relevant notes elsewhere in Federal government reporting would be helpful.

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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.

Agree.
The guidance for life insurance programs in (par. 55-64) is clear and appropriate. The EPA acknowledges the Board's efforts to support the general principle to reflect the interaction between revenue and liability for life insurance programs.

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

Agree.
The disclosures for the life insurance programs (par. 65-68) concerning factors such as materiality and information for changes in the liability balance are crucial to financial reporting. Agencies omission or misstatement of information has the potential to mislead readers and stakeholders.

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.

Agree.
The board intended to improve financial reporting and to better inform readers about the operating performance of insurance programs. The EPA believes that the details provided in par. 69 provides the necessary guidance for disclosures to the consolidated financial report (CFR) of the U.S. Government.

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.

Agree.
The EPA supports the Board's proposal that this statement be effective September 30, 2017. Most Federal agencies such as FDIC, OPM, PBGC, etc., have existing policy and procedures in place. However, they need to update their policies to comply with the new requirements. The EPA believes that by implementing this ED beginning after

September 30, 2017, it provides sufficient time for agencies to resolve any material implementation issues.