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December 22, 2008



VIA E-MAIL: rggolden@fasb.gov

LETTER OF COMMENT NO. 12

Mr. Russel G. Golden  
FASB Technical Director  
Financial Accounting Standards Board  
401 Merrit 7  
Norwalk, CT 06856-5166

File Reference: Other than temporary impairment (“OTTI”)

Dear Mr. Golden,

We understand that the FASB has recently undertaken a project to address issues that have arisen in the application of the OTTI model. We have significant concerns with the current OTTI guidance, and we agree that the current OTTI model needs to be revisited. Although OTTI has been controversial for many years, we have noted that most of the comment letters on OTTI have focused on debt securities, and particularly structured securities. Instead, we will focus our on OTTI as it applies to equity securities, as this is a topic that we feel merits attention and something that has a more direct impact on all insurance companies that make long-term investments in public equity securities.

Alleghany Corporation is engaged, through Alleghany Insurance Holdings LLC and its subsidiaries, RSUI Group, Inc., Capitol Transamerica Corporation, and Employers Direct Corporation, in the property and casualty and surety insurance business. We also own and manage properties in the Sacramento, California region through our subsidiary, Alleghany Properties.

Statement No. 115 and related staff position FSP-115-1 (collectively, “SFAS115”) and SEC Staff Accounting Bulletin (“SAB”) 59 are the primary sources of official guidance on OTTI. Under this guidance, OTTI is defined as not being “permanent”, and bright-lines are explicitly avoided. SAB 59 states “all available evidence must be considered to evaluate whether impairment is other than temporary”. SAB 59 also states that unless

evidence exists to support a realizable value equal to or greater than the carrying value, an OTTI exists. With respect to equity securities specifically, SAB 59 states that the *intent and ability of an investor to hold an equity security indefinitely would not, by itself, allow an investor to avoid OTTI*. In summary, the current guidance on OTTI, particularly for equity securities, can be characterized as highly conceptual and dependent on professional judgment. However, as is usually the case where there exists only high-level and conceptual guidance to address an area requiring considerable judgment, the accounting and auditing practice has evolved to fill the void. In this case, we believe that practice has developed by the large accounting firms and, to a certain extent, by the SEC directly, through its comment letter process and other means. From the perspective of the audit firms, a more rigid interpretation of OTTI allows for more consistent application among different companies / audit firms / audit partners with each firm. This is particularly important to them in a litigation defense context. Thus, we have evolved to a relatively rigid OTTI model for equities. Elements of the model, at least as we understand them, are highlighted below.

1. Recovery period – We understand that there are so-called “practical limitations” on the period of time that management can incorporate into the anticipated recovery period for equities, and such limitation ranges from 12 to 18 months from the balance sheet date. This rule has the unintended consequence of defining a time period for OTTI - something the FASB and the SEC have purposefully avoided in their official guidance.
2. Severity of unrealized loss – Given the above limitations on recovery period, among other considerations, there appears to be related bright-line test with respect to the severity of unrealized loss as of the balance sheet date, with a bright-line 50% threshold often cited. Thus, we are continually told that trying to defend an equity security whose decline is 50% or more is essentially a waste of time, in light of the evidence needed, even if the overall stock market is down almost that much.
3. Duration of unrealized loss – For equity securities, there appears to be a strong bright-line in place whereby all equity securities that have been continuously underwater for 12 months or more preceding the balance sheet date are automatically deemed as OTTI, even if the overall stock market is down that long.
4. Market conditions – In using management judgment to determine whether a security is temporarily or other than temporary, overall market conditions carry little or no consideration from the perspective of auditors and regulators.
5. Accounting for previously-impaired securities – Current guidance states that subsequent changes in the fair value of available-for-sale securities shall be included in other comprehensive income, so long that a decrease in value does not represent an other-than-temporary impairment. However, in evaluating a further decline in value following an OTTI-determination, the fact that an OTTI-determination was previously made must be taken into account. A practical matter, this has the unintended consequence of effectively requiring a draconian ‘lower of cost or market’ accounting on a security once it is impaired, at least until the security is sold.

This equity model has been developed over the past several years. We haven't seen a lot of debate or controversy over this time frame, and we believe this is due to (1) a relatively stable / bull stock market from 2003-2007, and (2) recent focus of major financial institutions on issues related to fixed maturities, as noted previously. However, in an extreme bear stock market, such as we are currently experiencing, the flaws in this equity model becomes crystal clear.

The bright-lines and other practices in the model apply to all companies and situations, regardless circumstance. This can lead to material financial statement distortions. For instance, Alleghany, like many institutional equity managers, takes a longer-term view (3-5 years) when managing its equity portfolio, and as such, we focus on the underlying fundamentals of the companies, and tend to ignore short-term trading volatility. Therefore, we view it as inappropriate and misleading to be forced to recognize OTTI on securities in many situations. We believe that taking write-downs on positions that are either underwater by 50% or more, or that have been underwater continuously for the preceding 12 month period, is inconsistent with our view of the security and how we manage the portfolio, especially in the context of a broad economic collapse accompanied by a roughly 40% drop in the stock market. Specifically, in the absence of these bright-lines, we would cite (1) the solid underlying fundamentals of the company (from our own research), (2) our investment horizon is longer-term, and (3) we have the ability and positive intent to hold to recovery.

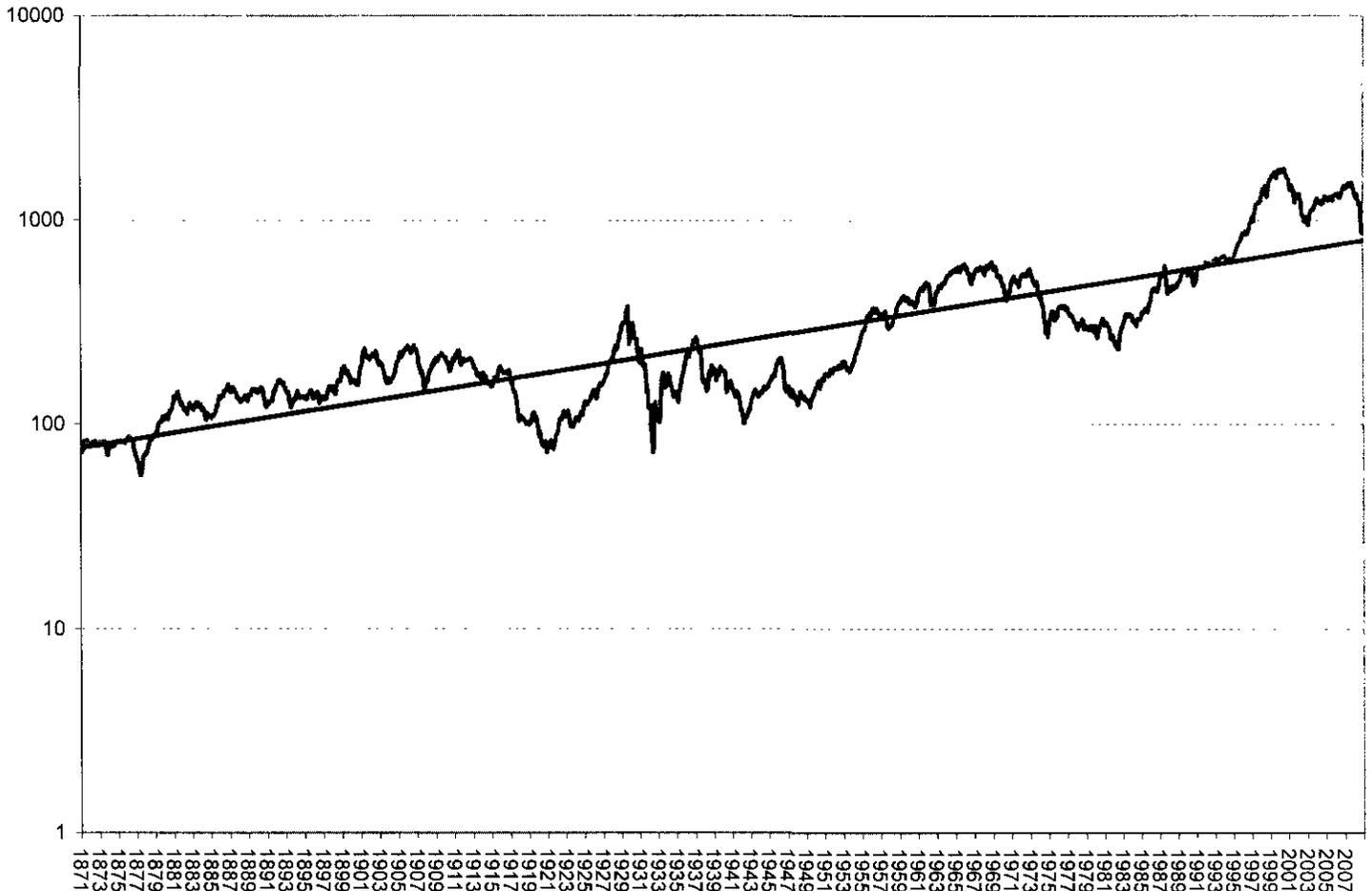
The material financial statement distortions caused by the OTTI model for equities is only magnified in the massive equity correction that we are currently witnessing. Under these circumstances, we feel that it is important to look at the declines in value in the context of the overall market – something that is largely precluded under the OTTI model for equities. By largely ignoring overall market conditions as a contributing factor to the severity and/or duration of the decline ignores the reality that such declines are not necessarily the market's reaction to a deterioration of the fundamentals of the company itself. In fact, the severe market declines have not altered our long term view of our key positions, and as such, we intend to 'ride out the storm' as we have successfully done in the past. Disregarding overall market conditions in the OTTI analysis also ignores the historical and highly cyclical nature of the stock markets themselves. It is a fact that in every major stock market correction in history has been followed by a market recovery. Even in the Great Depression, stocks lost 85% of their value from 1929 to 1933. After 1933, 80% of the loss was recovered over the following period of about 2 years or so (or beyond the recovery period permitted by the model). In this current stock market crash, the model would cause most of the equities contained in the S&P 500 to be designated as OTTI if they were to be purchased a year ago. This would be due to the fact that the many securities have been trading continuously underwater for the past 12 months, and / or trading below 50% of where they were trading a year ago. In doing so, we are making the assertion that most of corporate America was impaired! 200 years of stock market performance history would indicate that this assertion is invalid.

As a result of the current market conditions combined with the equity OTTI-model, we will continue to see unprecedented OTTI losses from equities running through income

statements of financial institutions. We believe that such losses distort the economic reality of an entity's period-to-period earnings, because these prices will not be realized by institutions with a longer-term trading horizon that have the intent and ability to hold to recovery. As such, we believe that these losses are misleading to financial statement users, be they investors, regulators, creditors, or credit agencies, making it that much more difficult for them to discern financial performance and health. Worse yet, the market's adverse reaction to such income statement losses are exacerbating the current market crash. This also can create a downward spiral. Take for example, when company A's stock price is severely down, creating an "earnings hit" for company B (who invested in A). Company B's stock price becomes depressed as a result, creating an earnings hit for company C (who invested in B), and so on. The income statement distortions will continue as the equities recover, with no corresponding recovery reflected in the income statement (at least until ultimate sale).

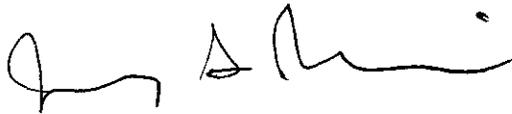
For some perspective on the cyclical nature of our stock market, below is a historical chart:

**Real (Inflation Adjusted) S&P 500 Since 1870**  
(Data from Robert Shiller - <http://www.econ.yale.edu/~shiller/>)



As a result of the practice that has emerged, we ask that the FASB address the entire OTTI model for equity securities. In doing so, the FASB should acknowledge that bright-lines and interpretations are inevitable in this area, and therefore, the FASB should be prepared to develop their own more detailed guidance, including consideration of bright-lines, that take into account the points raised above, such as overall market conditions, analysis of fundamentals and investment horizon. In summary, we believe it is appropriate to recognize economic losses through the income statement when they occur, however, such losses should be a fair representation of the true economic condition of an entity, including an entity's ability and intent to hold to recovery.

Very truly yours,

A handwritten signature in black ink, appearing to read "Russel Golden". The signature is fluid and cursive, with a prominent initial "R" and a long, sweeping underline.