



# THE CHUBB CORPORATION

15 Mountain View Road, Warren, New Jersey 07059

April 1, 2009

Russell G. Golden  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 272

Re: File Reference: Proposed FSP FAS 115-a, FAS 124-a, EITF 99-20-b

Dear Mr. Golden:

The Chubb Corporation is a holding company with subsidiaries principally engaged in the property and casualty insurance business (collectively, the Corporation). We appreciate the opportunity to respond to this proposed FASB Staff Position (FSP), which would amend FASB Statements No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," to make the other-than-temporary impairment guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. At December 31, 2008, the Corporation held \$33 billion of available-for-sale debt securities and \$1 billion of available-for-sale equity securities and, accordingly, the proposed FSP would affect the Corporation's 2009 financial statements.

We support the FASB's efforts to make the other-than-temporary impairment (OTTI) guidance more operational and to improve the presentation of such impairments in the financial statements. We agree with the FASB's proposal to change the current indicators from management asserting the intent and the ability to hold an impaired security to its anticipated recovery in fair value to management asserting it does not have the intent to sell an impaired security and is not likely to have to sell it before its recovery. We also support the Board's proposal to recognize credit related impairments in the statement of earnings and recognize non-credit related impairments in other comprehensive income. We believe that this approach is consistent with the Board's objectives as it requires the holder of an impaired security to recognize in earnings the losses that they ultimately expect to realize.

However, we do not support the presentation proposed in paragraph 16. The proposed presentation would include one caption for the total impairment amount and another for the amount of OTTI recognized in other comprehensive income. We find this presentation unwieldy and inconsistent with traditional financial reporting presentation. We recommend that credit impairments be included in the realized gains and losses line of the statement of earnings with supporting disclosure in the notes to the financial statements, and that non-credit impairments be included in the unrealized appreciation or depreciation component of other comprehensive income.

Please find our detailed responses to your specific questions below:

1. This proposed FSP would require entities to separate (and present separately on the statement of earnings or “performance indicator”) an other-than-temporary impairment of a debt security into two components when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. The two components would be (a) the credit component and (b) the noncredit component (residual related to other factors). Does this separate presentation provide decision-useful information?

We believe that the proposed bifurcation of the credit and non-credit components of OTTI into the statements of earnings and other comprehensive income, respectively, is appropriate and provides decision-useful information. This presentation identifies for investors the portion of an OTTI loss that management believes is a realized loss and the residual portion it expects will be recovered in the future. However, we do not support the proposed presentation in the statement of earnings. We believe this presentation would result in greater confusion than clarification and would be inconsistent with the presentation of other items included in other comprehensive income.

2. This proposed FSP would require that the credit component of the other-than-temporary impairment of a debt security be determined by the reporting entity using its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument. One way of estimating that amount would be to consider the measurement methodology described in paragraphs 12–16 of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*. For debt securities that are beneficial interests in securitized financial assets within the scope of Issue 99-20, the amount of the total impairment related to credit losses would be determined considering the guidance in paragraph 12(b) of Issue 99-20. Do you believe this guidance is clear and operational? Do you agree with the requirement to recognize the credit component of an other-than-temporary impairment in income and the remaining portion in other comprehensive income? Under what circumstances should the remaining portion be recognized in earnings?

We believe the proposed guidance is more operational than the current guidance, although it could create comparability issues among companies. The proposed guidance allows for the use of professional judgment by preparers and the use of the reporting company’s own assumptions and models.

We support the Board's proposal to realize credit related impairment losses in the statement of earnings and recognize non credit related impairment losses in other comprehensive income. We believe this approach is a better representation of the economic reality as of the measurement date. It also supports the Board's objectives of requiring the holders of impaired securities to realize the amount of loss that is most likely to be incurred.

We believe that the remaining portion of an impairment loss recognized in other comprehensive income should be recognized in earnings upon the disposal of the security or if management determines that an additional portion of the OTTI is attributable to credit losses.

While the proposed guidance includes certain operational improvements, it also presents operational challenges. Bifurcating the credit and non-credit components of impaired securities requires companies to perform a credit analysis to determine the credit loss component of an impaired security. We recommend that the Board allow companies the option of using the fair value of a security as a practical expedient for determining the impairment loss to be recognized in earnings. For those securities where bifurcation is not practical, this would simplify the process by allowing companies to recognize the entire difference between a security's fair value and cost as the impairment loss recognized in earnings. This would be consistent with the measurement methodology described in paragraphs 13 of FASB Statement No. 114.

As an insurance company, we also are required to maintain both statutory and GAAP bases of accounting. Therefore, unless the statutory accounting guidance is modified to be consistent with GAAP, this will present significant operational challenges. This would require changes to our investment accounting workflows and systems to support the different treatment under the two bases of accounting. Given the accelerated time line of this proposed guidance we have been unable to gain an understanding of how this will impact the vendors that support our investment accounting reporting process.

3. This proposed FSP modifies the current indicator that, to avoid considering an impairment to be other than temporary, management must assert that it has both the intent and the ability to hold an impaired security for a period of time sufficient to allow for any anticipated recovery in fair value. The Board believes that, compared to current requirements, it is more operational for management to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery. Does this modification make this aspect of the other-than-temporary impairment assessment more operational (the remaining factors discussed in FSP FAS 115-1/FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, would remain unchanged)? Should this modification apply to both debt and equity securities? Will this change result in a significant change to the assessment of whether an equity security is other-than-temporarily impaired?

The proposed modification would make the assessment of OTTI more operational than the current guidance. We believe that it is challenging for management to assert, as well as for the accounting firms to audit, that management has the intent and ability to hold an impaired security until recovery. It requires a significant level of judgment to determine if and when a security would recover. It is more operational for management to assert, as well as for the accounting firms to audit, that it is more likely than not that they would not have to sell an impaired security before it recovers. This will improve the periodic process of identifying, accounting and auditing OTTI.

We believe that the operational benefits of an intent to sell indicator should apply to both debt and equity securities. We also believe that a single accounting principle should be applied to all securities. We recommend that the modification should apply to both debt and equity securities. We do not believe there would be a significant change to the assessment of whether an equity security is other-than-temporarily impaired.

4. This proposed FSP would require that the portion of an impairment recognized in other comprehensive income for held-to-maturity securities be amortized (through other comprehensive income) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset (that is, an entity would not be permitted to adjust the fair value of a held-to-maturity security for subsequent recoveries in the fair value of the security similar to the accounting for available-for-sale securities). Do you agree with this requirement?

The Corporation does not currently classify any of its securities as held-to-maturity.

5. Is the proposed effective date of interim and annual periods after March 15, 2009, operational?

We believe that the practice of issuing guidance and requiring companies to adopt such guidance after the end of a reporting period is troublesome. In addition to the need to address system, infrastructure or workflow issues, entities need to ensure that they can comply with the control and procedure requirements prescribed by SEC Rules 13a-15(e) and 13a-15(f). Therefore, we suggest that the Board consider making the proposal effective for interim and annual periods ending after June 15, 2009 and allow early adoption for interim and annual periods ending after March 15, 2009. We also believe this guidance should not be applied retrospectively to periods ending prior to March 15, 2009.

We would be pleased to discuss our comments and recommendations with members of the Board or its staff.

Very truly yours,

John J. Kennedy  
Senior Vice President and  
Chief Accounting Officer