



1 Fountain Square
Chattanooga, TN 37402
423 294 1011
unum.com

May 15, 2013

Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
401 Merrit 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: File Reference No. 2012-220

Dear Ms. Cospers,

We appreciate the opportunity to provide comments to the Financial Accounting Standards Board ("FASB" or "Board") on its February 14, 2013 Exposure Draft regarding proposed disclosures about financial instruments – recognition and measurement of financial assets and financial liabilities. Unum Group ("Unum") operates in the United States and is the largest provider of disability insurance products in the United States and the United Kingdom. Unum also provides a complementary portfolio of other insurance products, including employer- and employee-paid group benefits, life insurance, and other related services.

We appreciate the FASB's intent to provide financial statement users with more decision-useful information about an entity's involvement in financial instruments, while reducing the complexity in accounting for those instruments. Unfortunately, due to the timing of when the proposed standard was issued and with the work in finalizing our year-end and first quarter reporting, we have not had adequate time to evaluate the proposal's impact on all of our portfolio. Therefore, our responses are limited to those in which we have been able to evaluate the proposed standard on an overall perspective.

We support and are in favor of including the FV-OCI category and business model assessment and believe that FV-OCI should be the default category as opposed to the FV-NI. Most life insurers and insurers with long-duration products such as Unum have a business strategy where they try to match the liability cash flows with the asset cash flows. As a result, we typically hold securities for significant periods of time, but we may not hold them to maturity. Those securities are currently classified as available-for-sale, or what would be the equivalent of FV-OCI. We are opposed to the Board's current proposal in which the business model is considered after consideration of the investment cash flows. We believe the current proposal could be detrimental to companies such as Unum that have applied a business strategy that is based on matching asset and liability cash flows. If the Board does not modify the proposed language, it is highly probable that insurers such as Unum could incur significant costs related to restructuring investment portfolios to re-align the financial statement impact of the asset and liability movements. We do not believe that the time or cost to restructure these portfolios would be beneficial to our policyholders or investors or provide them with better financial information. The Board could eliminate this concern by changing the requirements for FV-OCI to give the business model equal consideration to the asset cash flow characteristics. Additionally, we do not believe that the proposed

classification and measurement guidance aligns with either current Generally Accepted Accounting Principles (“GAAP”) or the decisions reached to date for the insurance contracts project. As a result, we believe it is possible to have assets measured at FV-NI while changes in liabilities related to movements in the current market rates would be measured in OCI, resulting in a mismatch on the profit and loss statement. We encourage the Board to ensure that the two standards are aligned prior to issuance.

If the Board is unwilling to modify the proposed standard to equalize the Solely Principal and Interest (“SPPI”) test and the business model test for FV-OCI classification, then we would encourage the Board to modify the SPPI test. We believe that the Board’s proposal will actually cause several debt and asset-backed securities to fail the SPPI test, resulting in them being carried at FV-NI. As noted above, this would create a mismatch on the financial statements for most long- duration insurers which utilize a business model approach of investing to match their asset and liability cash flows. One way in which the Board could alleviate this concern is to replace “solely” with “substantially”. We believe that changing the word to “substantially” would ease some of the administrative burden that would otherwise result from this proposal, as well as allow users to more easily determine if typical features within debt instruments such as amounts received for extensions, prepayments or contingent features are substantially principal and interest.

We are also concerned with the increase in administration to properly document all of the various attributes of a security and to analyze whether the SPPI criteria has been met. Not only will the proposed standard require that we contemporaneously document all of the various cash flows in each security, it will also require that we revise administration systems to document the review and the criteria, and to establish the necessary internal control structure to comply with the standard. This is a significant undertaking from a time and cost consideration. We would potentially have to document several thousand separate securities. The requirement is further complicated for asset-backed securities because the offering documents may not fully identify the various cash flows for the underlying securities. As a result, there is concern that most of our asset-backed securities will fail the SPPI test simply because we are unable to obtain the necessary information to determine if the underlying securities will pass the SPPI test. These concerns could be easily alleviated if the Board would consider one or both of the options mentioned above: revise the language to where the business purposes test has the same consideration as the SPPI test and/or change the “solely” to “substantially” in the SPPI test.

The following represents our comments to the questions for all respondents and preparers of financial statements.

Questions for All Respondents

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?

Unum Response: We agree with the scope of the proposed standard; however, we recommend the Board continue to consider the interrelationships between the financial instruments projects and the

insurance contracts project prior to finalizing either project and recommend alignment of the effective dates for these projects.

Question 2: Do you agree with the industry-specific specialized guidance scope exceptions in paragraph 825-10-15-9? If not, why? What would you propose instead?

Unum Response: The industry-specific guidance in paragraph 825-10-15-9 is not applicable to Unum; however, we would encourage the Board to consider providing new specialized industry-specific guidance for insurers to allow for better alignment in the measurement of financial assets and financial liabilities that are associated with contracts issued by insurance entities. As noted above, most insurers with long-duration products have an investment strategy that seeks to align the asset and liability cash flows. We believe the Board should include a FV-OCI option when measuring financial assets or liabilities as this would reduce or mitigate an accounting mismatch regardless of the cash flow characteristics. We believe such a FV-OCI option would effectively be limited to assets backing liabilities in the scope of the insurance contracts project where changes in the discount rates are recorded in OCI. This FV-OCI would better align the measurement of assets and liability for insurance contracts and provide more relevant and useful information to financial statement users.

Questions for All Respondents

Question 4: Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?

Unum Response: The proposal does convey the principle of contractual cash flows, but as mentioned above, we have several concerns with the operability of the proposal especially as it pertains to the business model and SPPI test. As we have discussed above, the Board could remove some of the administrative burden of applying the proposed standard if the Board were to modify the SPPI test to refer to “substantially” as opposed to “solely”.

Question 5: The proposed amendments define principal as the amount transferred by the holder at initial recognition. Should the definition of principal be expanded to include repayment of the principal amount at maturity or other settlement? If so, what instruments would fail (or pass) the contractual cash flow characteristics criterion as a result of this change?

Unum Response: We believe that the definition of principal should be expanded to include the repayment of the principal amount at maturity or other settlement. Doing so would align the definition with how the markets define principal. We believe that the proposed definition of principal could cause certain instruments that are purchased at a significant premium or discount to the par value to fail the SPPI test when the instrument can be called or prepaid. It would also be consistent with how a security is considered for impairment in which we must look at the total expected cash flows expected to be collected. In that test for impairment, we consider the par or notional amount of the security, not “the amount that was transferred by the holder at initial recognition” as defined in the proposed standard.

Question 6: Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?

Unum Response: We believe that the proposed standard generally contains sufficient application guidance and illustrations for the portion of our portfolio that we have been able to perform a detailed analysis for; however, we do not believe that the Board has appropriately considered the time and expense involved in performing the analysis necessary to perform and document the SPPI test for all of the various types of securities.

Question 7: Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?

Unum Response: As noted before, we do not believe that the contractual cash flow test should be the only consideration in determining the securities' classification. We believe the business model test is equally as important. Additionally, we believe the "solely" test is too restrictive and should be modified to allow for changes in cash flows which are "substantially" principal and interest.

Question 8: Do the proposed amendments contain sufficient application guidance in paragraphs 825-10-55-17 through 55-20 on assessing a modified economic relationship? If not, why?

Unum Response: The proposed standard's application guidance appears to be sufficient for the portion of our portfolio that we have been able to review, but supports earlier concerns around the time necessary to apply the proposed standard as well as document all of the various cash flow scenarios with each security.

Question 9: For beneficial interests in securitized financial assets, the proposed amendments would require an entity to look through to the underlying pool of instruments in determining whether the tranche contains payments of solely principal and interest. Do you agree with this look-through approach? If not, why? What would you propose instead?

Unum Response: As noted above, we do not agree with the look-through requirement for securities in which we have a beneficial interest. This requirement seems overly burdensome in that it essentially requires that we review all of the underlying assets to determine that the cash flows satisfy the SPPI test in order to be classified as something other than FV-NI. Our biggest concern with this requirement is that the information necessary to perform this analysis may not be available. As a result, we believe that a significant majority of these types of securities will be classified as FV-NI.

We also have concerns with a common feature in collateralized debt obligations ("CDO"). As we understand the proposed guidance, if the CDO permits the investment manager to sell credit default swap ("CDS") protection for even a small percentage, the CDO would fail the SPPI test and be classified as FV-NI. While this is typically an option to the investment manager and may or may not be utilized, it

results in an instrument being valued at FV-NI when all the investor is receiving is typically principal and interest.

Question 10: Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?

Unum Response: No. As noted above, the Board's proposal which requires that the SPPI test be met first and then consideration of the business model test does not appropriately convey the principle associated with the business model assessment. As we mentioned above, the business model for long-duration life and disability insurers is to match the liability cash flows with those of appropriate investments. Also, the fact that the liabilities are typically not measured at FV in current GAAP, nor at FV-NI in the proposed insurance contracts standard, creates a mismatch in the financial statements and earnings volatility in the profit and loss statement which we do not believe is relevant to the investor considering the long duration of our products. We believe that the Board should give the business model requirement equal weight when considering if an investment should be carried at FV-NI or FV-OCI.

Question 11: Do the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the proposed guidance provided to describe those business models? If not, why?

Unum Response: Yes, we believe the proposed standard is clear on this matter.

Question 12: Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?

Unum Response: We believe the classification and measurement model for financial instruments should rely on the principle and exercise of professional judgment. While we appreciate that the proposed standard does not contain an explicit tainting provision, there are some concerns that the application of the business model could develop in way that could potentially limit the use of this category. Our concern relates to changes in circumstances that may not have been anticipated by management that could lead to sales of assets classified at amortized cost. This hindsight could be used to question management's initial judgment with respect to meeting the amortized cost business model. We would recommend adding explicit guidance that would avoid this type of hindsight application

Question 13: The proposed amendments would require loan commitments, a revolving line of credit, or a commercial letter of credit (the potential creditor) to be measured on the basis of the likelihood of exercise of the commitment and the classification of the underlying loan that would be made upon exercise of the commitment. Do you agree with the proposed classification of loan commitments? If not, why? What would you propose instead?

Unum Response: We do not have any concerns with the proposed classification model for these instruments.

Initial Measurement

Question for All Respondents

Question 14: Do you agree with the initial measurement principles for financial instruments? If not, why?

Unum Response: Yes, we agree with the initial measurement principles for financial instruments.

Subsequent Measurement

Questions for All Respondents

Question 16: Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?

Unum Response: Yes, we believe that financial liabilities should be subsequently measured at amortized cost.

Question 17: The proposed amendments would require a nonrecourse financial liability that is settled with only the cash flows from the related financial assets (see paragraph 825-10-35-11) to be measured on the same basis as those assets. Do you agree with the proposed amendments? If not, why? What would you propose instead?

Unum Response: We do not disagree with the proposal, but it is unclear from the proposed guidance how one would classify a financial liability that is settled with asset cash flows that may be split between FV-OCI and FV-NI. This is an area where the Board could provide additional implementation guidance to provide clarity.

Question 18: The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain, until the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?

Unum Response: Yes, we agree with the proposed classification and measurement requirements for financial assets measured at amortized cost that are subsequently identified for sale.

Question 19: The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?

Unum Response: Current accounting guidance (944-325-30-1) requires insurers to report all equity securities at fair value regardless of whether fair value is readily determinable (that is marketable or

nonmarketable equity securities). We believe current GAAP for insurers should be retained whereby these instruments would be measured at FV-OCI if they were not held for sale purposes. As a result, we do not believe there is a need for the practical expedient. To the extent current GAAP for insurers is retained, we do not believe the proposed one-step impairment model should be utilized to determine impairment. We believe retaining existing impairment guidance for equity securities should be retained.

Question 20: Should an entity evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income separately from the other deferred tax assets of the entity (rather than combined and analyzed together)? If not, why?

Unum Response: We believe that the proposed guidance needs further clarification because it does not appear to appropriately consider changes in fair value that have been recognized in the profit and loss statement, but are not actually realized for income tax purposes until the security is sold. As a result, preparers would have deferred tax assets (“DTAs”) not only from decreases in fair value which have been recorded in other comprehensive income (“OCI”) but also from decreases in fair value that have been recognized on the profit and loss statement but not realized for tax purposes since the security has not actually been sold. If the intent of the proposed guidance is to require the preparer to evaluate the DTAs associated with just the decreases in fair value that have been recognized in OCI and not to consider the DTAs also associated with changes in fair value recognized on the profit and loss statement, or with other DTAs that are a result of timing differences, we disagree with the proposed standard. To simply evaluate the DTAs associated with changes in fair value which are recorded in OCI without considering the realizability of the other DTAs is, we believe, contrary to the intent of ASC 740 and how a valuation allowance should be considered for a tax account. Further, we do not understand why there would be a difference in how DTAs associated with changes in fair value recognized on the profit and loss statement would differ from those recognized in OCI. We believe that the allowance for DTAs should be combined and analyzed together.

Question 21: Under the amendments in this proposed Update, hybrid financial assets would not be required to be analyzed for bifurcation under Subtopic 815-15 and would be assessed in their entirety on the basis of the proposed classification requirements. In contrast, hybrid financial liabilities would be assessed for bifurcation and separate accounting under Subtopic 815-15, and the financial liability host contract would be subject to the proposed amendments. Do you agree with this proposal? If not, why? What would you propose instead?

Unum Response: This is not applicable to Unum at this time.

Question 22: The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?

Unum Response: Yes, we do agree that a reclassification of financial assets should occur when the business model changes. We also believe this supports the business model test as specific industry

guidance for insurance companies or that the business model test should not be first dependent upon meeting the SPPI test.

Presentation

Questions for Preparers and Auditors

Question 26: The proposed amendments would require an entity to separately recognize in net income changes in fair value attributable to foreign currency gain or loss on foreign-currency-denominated debt securities measured at fair value through other comprehensive income (see paragraphs 825-10-45-14 through 45-15). Is the proposed fair-value-based method provided for computing the foreign currency gain or loss component operable? If not, why? What would you propose instead?

Unum Response: We believe that the proposal is probably operable; however, we are uncertain about the potential implications this might have on our existing hedge program to mitigate changes in foreign currency spot rates. We would appreciate the Board's consideration of adding a section in the implementation guidance that discusses the potential implications to existing hedge programs that might be impacted by this proposal.

Disclosures

Question for All Respondents

Question 29: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?

Unum Response: We generally agree with the proposed disclosure requirements but request that the Board consider the amount of information that is already required to be disclosed related to financial instruments.

Transition and Open Effective Date Information

Questions for All Respondents

Question 30: Should an entity be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option under the proposed requirements? If not, why?

Unum Response: No. We do not believe that companies should be allowed to early adopt because we believe that early adoption of the proposed standard will impact the comparability between other companies within the same industry.

Question 31: Should the effective date be the same for both public entities and nonpublic entities?

Unum Response: Yes, we believe that the effective date should be the same for both public and nonpublic entities.

Questions for Preparers and Auditors

Question 32: How much time is needed to implement the proposed guidance?

Unum Response: We believe the effective date for any changes in the classification and measurement of financial instruments should be aligned with any changes in the financial instrument's impairment project, which we believe would require extensive changes and should not be effective until 2017. Depending on the final changes required under the classification and measurement guidance, companies may need to perform detailed, individual evaluation on thousands of investments to determine whether these instruments meet the cash flow characteristics assessment under the proposed guidance. Additionally, some of the information needed to perform the classification tests may not be available currently or, if ever, and will require extensive efforts to obtain. As a result, companies would need an extended amount of time to adequately prepare processes and systems for these changes, while at the same time many changes may be occurring as a result of any new credit impairment guidance. Given that both of these changes would impact many of the same resources, an effective date of 2017 would be needed to ensure companies are prepared to implement the proposed guidance.

Additionally, given the interaction of the financial instrument project and the insurance contracts project, we believe the Board should align the effective date of any changes from the financial instrument project with any changes that result from the insurance contracts project. While adopting three significant accounting standards at the same time may create an additional burden on preparers, the alignment of these dates will avoid confusion on the part of users given the two standards are so closely linked. Similarly, we believe the Board should continue to evaluate the transition guidance for the guidance as well as the interaction with the insurance contracts project to ensure that there is consistency between the two transition methods (as appropriate) in establishing the balances within OCI, as well as the amount that will ultimately be reflected in the profit and loss statement.

Question 33: Are the transition provisions in this proposed Update operable? If not, why?

Unum Response: We believe the Board should continue to evaluate the transition guidance for the exposure draft as well as the interaction with the insurance contracts project to ensure that there is consistency between the two transition methods in establishing the balance within OCI as well as the amount that will ultimately be reflected in the profit and loss statement.

Equity Method Accounting

Questions for All Respondents

Question 34: The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the

investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?


Unum Response: As mentioned above, we believe current GAAP for insurers should be retained whereby these instruments would be measured at FV-OCI, if they were not held for sale purposes. However; based on our review, we believe that the proposed indicators to determine if an equity method investment is held for sale, and thus measured at fair value with changes in fair value recognized in net income, are operable.

Question 35: The proposed amendments would change the current two-step impairment model for equity method investments to a one-step impairment model for all equity investments. Do you agree with the proposed one-step equity impairment model? If not, why? What would you propose instead?

Unum Response: We believe the existing two-step impairment model for equity method investments should be retained. Otherwise, temporary declines in value would be reported as net income when they may never be realized.

Thank you for your consideration of our responses.

Sincerely,



Roger L. VanCleave
Vice President, Technical Accounting Advisor
Unum Group
1 Fountain Square – 6N660
Chattanooga, TN 37402

rvanleave2@unum.com

P: 423-294-8174

C: 423-443-6967

F: 423-785-5818

cc: director@fasb.org