

**Liberty Mutual Group** 

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Technical Director
File Reference No. 2013-220
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Liabilities (Subtopic 825-10)

Liberty Mutual Group (LMG) is a diversified global insurer and the sixth largest global Property and Casualty (P&C) insurer in the world. As of December 31, 2012, LMG has approximately \$120 billion in consolidated assets and \$102 billion in consolidated liabilities. Our consolidated revenues were approximately \$37 billion for the year ended December 31, 2012. LMG has an interest in the proposed standard both as an investor, with an investment portfolio of over \$72 billion as of December 31, 2012, and as a preparer of U.S. GAAP financial statements.

We appreciate the opportunity to provide the Financial Accounting Standards Board ("FASB") with our comments pertaining to the Proposed Accounting Standards Update, Financial Instruments — Overall, Recognition and Measurement of Financial Assets and Liabilities (Subtopic 825-10) issued on February 14, 2013.

#### Overall comments

### Concern of accounting mismatches for insurance companies

In the insurance industry generally, the overall business model requires the entity to broadly match its assets with its liabilities. Reflecting similar economics between financial assets and insurance liabilities is fundamental to how the business and its risks are not only managed but also analyzed by users. While insurers do use simple debt instruments to match insurance liabilities, the asset strategy is often more complex involving the use of other instruments and investments, such as derivatives, non SPPI debt instruments, investment property, mortgage loans and equities. Though we disagree that the insurance reserves should be discounted under the insurance contract proposal, changes in the insurance liability arising from changes in discount rates are required to be recognized in OCI regardless of the classification and measurement applied to the insurer's underlying assets. To reduce these accounting mismatches we believe the Board should expand the FV-OCI option to all types of financial instruments. We are concerned that insurers will continue to have significant accounting mismatches and urge the Board to consider the existence of such mismatches further as it finalizes both the financial

instruments and insurance contracts projects. Until we are able to assess the inter-linkage of the accounting alternatives for assets and liabilities in the financial instruments and insurance contracts standards, we are unable to conclude our comments on both proposals.

We believe when the final standard for insurance companies is released there should be an opening for re-evaluation of any potential mismatches between the assets under this standard and the liabilities under the insurance contract standard.

## Fair value option

We believe the fair value option in existing GAAP should remain and not be restricted. We believe an unrestricted option for designating both assets and liabilities at FV-NI would eliminate accounting mismatches and for many entities that may not want to apply complex hedge accounting rules.

#### **Effective Date**

Assessing the full impact of the proposals to amend accounting for financial assets on insurance companies is not yet possible, as the full interaction between the accounting requirements for financial assets and insurance liabilities is unclear. Also, it is critical that new financial instruments standards should be considered in their entirety, including credit impairment and hedging, prior to adoption and be effective simultaneously. Therefore, we believe it is critical that the effective dates for all proposals affecting insurance company accounting be aligned to assure appropriately coordinated systems adjustments, asset-liability matching decisions, capital management, and reporting.

In addition to the comments expressed herein we have also expanded our responses in the appendix attached.

Sincerely,

John Doyle
Vice President & Comptroller

Liberty Mutual Group

### **Appendix - Questions for Respondents**

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

We believe that to eliminate accounting mismatches for insurance entities the Board should consider a FV-OCI option for all types of financial instruments. Many insurers have more complex long-term asset/liability management strategies utilizing various types of securities. Widening the scope of assets at FV-OCI would be consistent with the insurance contracts proposal of presenting the effect of changes in the discount rate in OCI.

Question 15: The proposed amendments would eliminate the unconditional fair value option (for financial instruments within the scope of this proposed guidance) in existing U.S. GAAP and, instead, permit an entity to elect to measure at fair value, with all changes in fair value recognized in net income, all of the following:

- a. A group of financial assets and financial liabilities if the entity both:
  - 1. Manages the net exposure relating to those financial assets and financial liabilities (which may be derivative instruments) on a fair value basis
  - 2. Provides information on that basis to the reporting entity's management.
- b. Hybrid financial liabilities that meet certain prescribed criteria.
- c. Financial assets that meet the contractual cash flow characteristics criterion and are managed within a business model that has the objective of both holding financial assets to collect contractual cash flows and selling financial assets (in accordance with paragraph 825-10-25-25(b)).

Do these options provide decision-useful information? If not, why?

No, we believe the existing unconditional fair value option should remain. For most insurance companies insurance liabilities are backed by a mixed portfolio of assets which could be classified under all three categories. Under the current insurance contract proposals discount rate movements on insurance liabilities would be reported wholly in OCI whilst backing assets could be measured at a mixture of FV-NI, FV-OCI and amortized cost, creating accounting mismatches in the income statement and balance sheet. We believe a FV-NI measurement option would be appropriate for such situations and hence an unconditional fair value option is necessary.

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

No, we believe the existing unconditional fair value option should remain for the reasons described above in our response to question 15.