PCI
Property Casualty Insurers Association of America

Shaping the Future of American Insurance

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Letter of Comment No: 141
File Reference: EITF03-1A

STEPHEN W. BROADIE
VICE PRESIDENT, FINANCIAL
LEGISLATION AND REGULATION

October 29, 2004

Director TA&I-FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed FASB Staff Position – Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1 – *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP EITF 03-1-a or EITF 03-1).

Dear Director:

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on FSP EITF 03-1-a and issues that arose during the FSP EITF 03-1-b comment letter process. PCI is a national property/casualty insurance trade association comprised of over 1000 member insurers who write over $173 billion in premiums annually, nearly 40% of the property/casualty premiums written in the United States.

We would like to make the following points without going into great detail. We also endorse the comment letter that will be submitted to you today by the Allstate Corporation.

- Other-than-temporary impairments should be reported in a timely manner, consistent with the guidance in both FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115), and SEC Staff Accounting Bulletin No. 59, *Accounting for Noncurrent Marketable Equity Securities* (SAB 59).

- Accounting guidance should not require pre-emptive recognition of impairments in a manner inconsistent with the beliefs and intent of management for the sole purpose of preserving the ability to sell securities in the future without the threat of triggering a tainting event (as we believe the current draft of FSP EITF 03-10a does).

- Other-than-temporary impairments should be recognized at the time a loss becomes probable based on the investor's intent to hold the securities until recovery. Consistent with the available-for-sale (AFS) designation in FAS 115, reporting entities should be permitted to change their intent to hold temporarily impaired AFS securities to recovery or maturity as long as the change in intent is adequately supported by a change in facts and circumstances consistent with the AFS designation.

- Any new authoritative guidance developed to allow reporting entities to determine when impairments are temporary or other-than-temporary should apply equally to securities that fall within the scope of paragraphs 10 or 16 of EITF 03-1.

- Appropriate guidelines should be developed for determining when equity securities are temporarily impaired, including not only changes in interest rates and credit sector spreads, but also factors such as normal periodic market volatility.

- Minor impairments should be considered temporary, and there should be no "bright line" threshold for determining what constitutes a minor impairment, although reporting entities should be required to adequately substantiate their judgments with respect to impairments they deem temporary. The concept of minor impairments should apply <u>equally</u> to fixed income and equity securities.

- The following criteria should be analyzed when determining whether an impairment is temporary or other than temporary:

  1. Length of time and extent to which the market value has been less than cost;
  2. The financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential;
  3. The intent and ability of the investor to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value; and
  4. The short-term expected volatility of the class of security under consideration

- Designation of the requisite intent to hold temporarily impaired securities until recovery is the cornerstone of the impairment guidance in FAS 115, and recognition of other-than-temporary impairments should be based on the probability that a loss has been incurred based on the intent of the reporting entity to hold temporarily impaired securities to recovery. We also believe that FAS 115 does not preclude changes in intent that are caused by changes in facts and circumstances consistent with the AFS designation. For temporarily impaired AFS securities, an investor should be able to designate, consistent with the guidance in FAS 115, an intent to hold "temporarily impaired" securities to recovery and later re-designate that intent, without triggering a tainting event, as long as the change in intent is caused by a change in facts and circumstances consistent with the AFS designation. These should include:

  1. Changes in market interest rates and related changes in a security's prepayment risk;
  2. Needs for liquidity (for example, due to the withdrawal of deposits, increased demand for loans, surrender of insurance policies, or payment of insurance claims);
  3. Changes in the availability of and the yield on alternative investments (i.e. relative value);
  4. Changes in funding sources and terms;
  5. Changes in foreign currency risk; and
  6. Asset-liability management.

- If the FASB either directly or indirectly eliminates the AFS designation for temporarily impaired securities, it should allow reporting entities the opportunity to re-designate AFS securities to trading without triggering a tainting event.

- Depending on the nature of the final guidance, sufficient time should be given to allow reporting entities to implement the necessary systems and process changes to enable the appropriate implementation of the final guidance. The amount of time given to reporting entities should be commensurate with the magnitude of changes necessary to current processes. For example, if the guidance either directly or indirectly eliminates use of the AFS designation for temporarily impaired AFS securities and thereby leads to "pre-emptive" write-downs or adoption of a trading designation, we believe reporting entities would need at least six to twelve months to implement this guidance.

We appreciate your consideration of these issues. I can be reached at 847/553-3606 or steve.broadie@pciaa.net if you would like to discuss the contents of this letter.

Sincerely,

Stephen W. Broadie

Stephen W. Broadie
Vice President, Financial Legislation and Regulation