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August 31, 2010

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

Re: File Reference No. 1810-100

Dear Mr. Golden,

CNA Financial Corporation (CNA) appreciates the opportunity to comment on the FASB's financial instruments and derivatives exposure draft (ED). CNA is the country's seventh largest commercial insurance writer and the 13th largest property and casualty company.

We believe that the accounting rules for both financial instruments and insurance contracts should complement the insurance business model and provide readers of our financial statements with relevant information to make judgments about our insurance underwriting profitability, liquidity, asset quality, and asset/liability duration and cash flow alignment. These we believe are the key investor judgments necessary to assess how well the business is being managed. Our thoughts on the financial instruments topics most important to us are outlined below for your further consideration.

Initial and Subsequent Measurement

We are concerned that the business model criteria as currently written in the ED could require insurance companies to record investments at fair value through net income (FVNI). For insurance companies two of the primary measures of performance are underwriting profit and combined ratios. Reporting investments at FVNI could overwhelm the income statement and render standard insurance measures meaningless. As an example, if all unrealized gains and losses on securities were recorded in net income, CNA's earnings per share would have been 1,220% lower in 2008 and 1,293% higher in 2009. FVNI may be of relevance to investors if there are any liquidity or asset quality concerns, but in the absence of these, FVNI results in meaningless volatility and a lack of consistency and comparability in the income statement.

We support the central principle of the ED that unrealized gains or losses expected to reverse in the context of the financial statement preparer's business model should be reported through other comprehensive income. We believe the business model criteria specified in the ED are too narrow, and will lead to fair value changes that are expected to reverse in the future to be recorded in the income statement. This could be misleading to investors. Furthermore, impairment losses are not required to be measured for financial instruments with fair value movements recorded in net income, which results in less transparency about asset quality and future cash flows for a user of the financial statements.

The ED includes language in the implementation guidance and basis for conclusions that indicates that sales may be occasional or infrequent, and that assets must be held for a significant portion of their contractual term in order for an asset to qualify for fair value through other comprehensive income (FVOCI). Insurance company investment portfolios need to be effectively managed to both mitigate bond price risk associated with changes in interest rates by aligning the duration of the assets with the underlying liabilities and to match liquidity needs resulting from uncertain claim payment patterns. Securities may also be traded in the normal course of portfolio management to effectively address capital market conditions, risk management and various state insurance regulations. We are concerned that these prudent management practices will result in the inability to use FVOCI for a significant portion of the financial instruments that support insurance liabilities.

A longstanding area of controversy related to GAAP accounting for debt securities is the tension between a financial statement preparer's original intent when a security is purchased and how changes in its business condition, economic

conditions and the issuers credit, among others, affects that intent. Even though our business strategy at the time of purchase is generally to collect contractual cash flows from debt securities, responsible management of our investment portfolio requires some level of sales in response to changes in circumstances. Accordingly, the restrictive business model criteria in the ED will force more securities to be treated as fair value through FVNI even though that is not reflective of current intentions nor prudent management.

We believe the most practical and operational approach should include less restrictive business model criteria along with required impairment when losses are no longer expected to reverse because of credit issues or an intent to sell the security similar to existing GAAP. Under this approach, if management identifies financial instruments to be sold because of a change in circumstances, losses related to those financial instruments will be recognized immediately in net income. Furthermore, since assets are recorded at fair value in the statement of financial position, a user of the financial statements can at any time assess the magnitude of potential losses if assets were to be sold in the future.

In summary, we believe the benefits of our recommended approach are that unrealized gains which are expected to reverse will not be recognized in the income statement, and impairment losses which are not expected to reverse will be visible to a user of the financial statements. Reported results of operations would provide a more useful measure to users of financial statements since they would not be affected by asset unrealized market value volatility expected to reverse in future periods. A FVOCI model therefore provides more relevant and transparent information to investors in situations where assets are purchased with the objective of collecting cash flows even if there is a certain level of sales activity necessary to support related liabilities.

Notwithstanding the fact that we agree that changes in fair value that are expected to reverse in the future should generally be recorded in other comprehensive income, if similar changes related to liabilities are recorded in the income statement due to the current project related to insurance contracts, then an entity should have the option of recording fair value movements in the income statement in order to avoid an accounting mismatch.

Entities should have the option of bifurcating embedded derivatives, particularly in instances where the embedded derivative is an insignificant component of the financial instrument. This would allow unrealized gains and losses that are expected to reverse to be recorded in other comprehensive income, which we believe is appropriate based on the observations above.

We don't agree that debt instruments that can be prepaid in such a way that the investor may not recover substantially all of its initial investment should be excluded from FVOCI treatment. If unrealized losses occur that relate to prepayment assumptions, these should be recognized through an adjustment to interest income. All other unrealized gains and losses are unrelated to the loss that the investor may suffer and shouldn't be required to be recognized in net income as they would likely reverse over time.

Credit Impairment

We believe management should be able to use all available information in the estimation of future cash flows and should not be limited to past events and existing conditions. Using all available information to develop a reasonable estimate does not involve forecasting future events that are so far into the future that they affect the reliability of the estimate and result in estimates that are not reasonable. Inputs into the estimation of future cash flows should include future events or conditions that can be reliably estimated.

The incurred loss model per the ED will potentially result in the delay in recognition of impairment losses. For example, if it is management's best judgment that underlying default rates will increase in the future, a strict interpretation of the FASB's incurred loss model would require current default rates to be used in cash flow calculations. The Financial Crisis Advisory Group recognized this when they recommended that the Boards explore alternatives to the incurred loss model - models that use more forward-looking information as they believed the incurred loss model delayed recognition of losses associated with loans and other financial instruments during the financial crisis.

The ED's incurred loss model will also result in the recording of impairment losses that management never expects to materialize and will be reversed in the future. Losses that are expected to reverse should not be included in the income statement as they cloud the performance of the Company's investment portfolio and result in meaningless volatility in the income statement.

One of the main objectives of the IASB and FASB is to focus on a principles basis of accounting vs. rules basis of accounting. Under a principles basis of accounting, management is expected to interpret and apply accounting

principles using their judgment. By limiting management's analysis for impairments to include only current conditions, the Board is imposing rules as to how management should exercise its judgment in developing reasonable estimates. The reasonableness of management's judgments should not be prescribed by accounting rules.

We recommend that an entity's intent to sell a security be included in the list of factors included in paragraph 43 of the ED, as well as the consideration of whether a financial asset's fair value is below its amortized cost. These factors, together with those listed in the ED, will result in the most accurate determination of whether an entity will collect all cash flows associated with debt securities, particularly since the fair value of debt securities is generally based on market expectations of future cash flows. Management's best estimates of expected cash flows, which are also based on observable inputs to the extent possible, will result in the most accurate measurement of impaired losses.

It is our view that once these factors have been considered for each debt security and best estimates developed for the measurement of any impairment losses for those securities deemed impaired, all cash flows not expected to be collected will have been accurately recorded. Any application of historical loss rates to securities on a pooled basis which result in additional impairments due to historical loss rates being higher than management's estimates of future cash flows represent an overstatement of impairment losses, which is inconsistent with the credit impairment objectives of the ED. i.e. impairment losses could potentially be recorded related to cash flows that the entity currently expects to receive. The converse is true if historical loss rates are lower than management's estimates of future cash flows, whereby impairment losses would be understated.

The application of historical loss rates to assets on a pooled basis also implies that impairment losses will be recorded for assets that are not deemed by management to be impaired. If assets are evaluated individually and the triggering factors don't lead management to conclude that they are impaired, management expects to collect all of the cash flows related to the securities. Any impairment losses recorded on a pooled basis represent an overstatement of losses and are not consistent with the objectives of the ED. Further evidence of this is the fact that losses will be recorded on securities at the time of purchase, and since the fair value of securities generally includes market expectations regarding future cash flows, the impairment loss recorded would not represent cash flows that are not expected to be collected.

Investment Contracts

We do not support a fair value measurement approach for investment contracts as we do not believe fair value can be reliably measured since many contracts do not have stated maturity dates or interest crediting rates and there is no observable market. Furthermore, entities issuing investment contracts may be subject to call risks that would result in the entity satisfying its obligation at contract value at any time. Therefore we believe it would be inappropriate for an entity to reflect in its financial statements a value that would be lower than the amount for which it could be presently settled with the contract holder.

Equity Method

We do not agree with the proposed change to the criteria for equity method of accounting. We believe this method of excluding equity method accounting is arbitrary and will not drive consistency or comparability. Guidance in FASB 94, Consolidation of all majority-owned subsidiaries, removed the "non-homogenous" requirement under ARB No. 51 (Accounting Standards Codification 810, *Consolidation*). This change effectively reinstates this thought process surrounding equity investments, and appears to be a step backward instead of forward. We believe the current scope for equity method accounting is most appropriate.

The remainder of this letter addresses the specific questions applicable to CNA contained in the ED and further elaborates on our conclusions.

If you have any questions, please feel free to contact me at 312-822-1222.

Sincerely,

D. Craig Mense

Scope

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

Response 1: We agree with the scope of financial instruments included in the proposed Update.

Question 3: The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit-type and investment contracts should be included in the scope? If not, why?

Response 3: We agree that deposit-type and investment contracts should be included in the scope as the model being discussed in the current insurance contracts project is not appropriate for deposit-type and investment contracts. However, they should be measured at contract value, as this most reliably reflects the liability of the company and any embedded derivatives should be bifurcated with fair value changes reported in net income.

We do not support a fair value measurement approach for investment contracts as we do not believe fair value can be reliably measured since many contracts do not have stated maturity dates or interest crediting rates and there is no observable market. Furthermore, entities issuing investment contracts are subject to call risks that would result in the entity satisfying its obligation at contract value at any time. Therefore we believe it would be inappropriate for an entity to reflect in its financial statements a value that would be lower than the amount for which it could be presently settled with the contract holder.

If the proposed guidance is finalized as currently constructed we request that the Board provide additional implementation guidance for calculating fair value of such instruments, and we believe there should be a provision that the liability should not be allowed to be lower than the contract value.

We also believe that an entity's own credit rating should not be factored into the measurement of the liability as the reporting changes would produce counter intuitive results. Specifically, as an entity's rating is downgraded, gains are recognized in the income statement, and the fair value of the liability could decrease to an amount less than settlement value.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

Response 4: We do not agree with the proposed change to the criteria for equity method of accounting. We believe this method of excluding equity method accounting is arbitrary and will not drive consistency or comparability. Guidance in FASB 94, *Consolidation of all majority-owned* subsidiaries, removed the "non-homogenous" requirement under ARB No. 51 (Accounting Standards Codification 810, *Consolidation*). This change effectively reinstates this thought process surrounding equity investments, and appears to be a step backward instead of forward. We believe the current scope for equity method accounting is most appropriate.

Initial Measurement

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

Response 8: In regards to financial assets, we agree with the initial measurement principles. However, the initial measurement relies on the subsequent measurement criteria, which we believe must be expanded to allow insurance companies to manage their financial assets appropriately. The ED includes language in the implementation guidance and basis for conclusions that indicates that sales may be occasional or infrequent, and that assets must be held for a significant portion of their contractual term in order for an asset to qualify for fair value through other comprehensive income (FVOCI). Insurance company investment portfolios need to be effectively managed to both mitigate bond price risk associated with changes in interest rates by aligning the duration of the assets with the underlying liabilities and to

match liquidity needs resulting from uncertain claim payment patterns. Securities may also be traded in the normal course of portfolio management to effectively address capital market conditions, risk management and various state insurance regulations. Sales may therefore be more or less frequent depending upon the various drivers noted, but that doesn't negate the fact that investments are purchased with the primary objective of collecting contractual cash flows. Assets will be held for far lengthier periods of time than in trading portfolios and significant portions of associated unrealized gains and losses will reverse over time. We are concerned that prudent management practices will result in the inability to use FVOCI for a significant portion of the financial instruments that support insurance liabilities.

IFRS 9 Appendix B4.3 provides examples for when an entity may sell a financial asset. Those examples include: the financial asset no longer meets the entity's investment policy (e.g. the credit rating of the asset declines below that required by the entity's investment policy); an insurer adjusts its investment portfolio to reflect a change in expected duration (i.e. the expected timing of payouts); or an entity needs to fund capital expenditures. We would recommend the FASB ED provide examples similar to this as well as sales that an entity needs to make for tax purposes or sales required due to changes in regulatory requirements.

A longstanding area of controversy related to GAAP accounting for debt securities is the tension between a financial statement preparer's original intent when a security is purchased and how changes in its business condition, economic conditions and the issuers credit, among others, affects that intent. Even though our business strategy at the time of purchase is generally to collect contractual cash flows from debt securities, responsible management of our investment portfolio requires some level of sales in response to changes in circumstances. Accordingly, the restrictive business model criteria in the ED will force more securities to be treated as fair value through net income (FVNI) even though that is not reflective of current intentions nor prudent management.

We believe the most practical and operational approach should include less restrictive business model criteria along with required impairment when losses are no longer expected to reverse because of credit issues or an intent to sell the security similar to existing GAAP. Under this approach, if management identifies financial instruments to be sold because of a change in circumstances, losses related to those financial instruments will be recognized immediately in net income. Furthermore, since assets are recorded at fair value in the statement of financial position, a user of the financial statements can at any time assess the magnitude of potential losses if assets were to be sold in the future.

In summary, we believe the benefits of our recommended approach are that unrealized gains which are expected to reverse will not be recognized in the income statement, and impairment losses which are not expected to reverse will be visible to a user of the financial statements. Reported results of operations would provide a more useful measure to users of financial statements since they would not be affected by asset unrealized market value volatility expected to reverse in future periods. A FVOCI model therefore provides more relevant and transparent information to investors in situations where assets are purchased with the objective of collecting cash flows even if there is a certain level of sales activity necessary to support related liabilities.

Notwithstanding the fact that we agree that changes in fair value that are expected to reverse in the future should generally be recorded in other comprehensive income, if similar changes related to liabilities are recorded in the income statement due to the current project related to insurance contracts, then an entity should have the option of recording fair value movements in the income statement in order to avoid an accounting mismatch.

Entities should have the option of bifurcating embedded derivatives, particularly in instances where the embedded derivative is an insignificant component of the financial instrument. This would allow unrealized gains and losses that are expected to reverse to be recorded in other comprehensive income, which we believe is appropriate based on the observations above.

We don't agree that debt instruments that can be prepaid in such a way that the investor may not recover substantially all of its initial investment should be excluded from FVOCI treatment. If unrealized losses occur that relate to prepayment assumptions, these should be recognized through an adjustment to interest income. All other unrealized gains and losses are unrelated to the loss that the investor may suffer and shouldn't be required to be recognized in net income as they would likely reverse over time.

In regards to financial liabilities, we agree with the initial measurement principles except as it relates to contract liabilities. As discussed in our response to Question 3, we believe contract liabilities should be recorded at contract value or amortized cost.

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

Response 9: We agree that a significant difference between transaction price and fair value should be recognized in net income.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

Response 10: Yes, we believe a single measurement principle should be utilized regardless of whether changes in fair value are recognized in net income or other comprehensive income. We believe the initial measurement of a financial instrument should be at the transaction price, as it generally represents the best estimate of fair value as of that point in time.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

Response 11: Yes, we agree.

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

Response 12: Yes, we believe this is operational; however we believe the initial measurement of a financial instrument should be at the transaction price, as it generally represents the best estimate of fair value as of that point in time.

Subsequent Measurement

Question 13: The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

Response 13: For financial assets, we believe the default measurement attribute should be fair value. However, we would not object to amortized cost if the criteria for utilizing amortized cost were the same as FVOCI. We do not support a fair value measurement approach for investment contracts as we do not believe fair value can be reliably measured since many contracts do not have stated maturity dates or interest crediting rates and there is no observable market. Furthermore, entities issuing investment contracts are subject to call risks that would result in the entity satisfying its obligation at contract value at any time. Therefore we believe it would be inappropriate for an entity to reflect in its financial statements a value that would be lower then the amount for which it could be presently settled with the contract holder.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

Response 14: We believe fair value changes for financial instruments which an entity intends to sell should be recognized in net income for reasons discussed in response 8 above.

Question 15: Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?

Response 15: Yes, but we believe contract value or amortized cost are the appropriate measurements for investment contracts.

Question 16: The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

Response 16: We believe reclassification should be allowed when the reporting entity's business strategy for managing financial assets changes. This refers to changes at the portfolio level and not at an individual financial instrument level and would therefore be infrequent.

Question 18: Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?

Response 18: We agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create a measurement attribute mismatch.

Question 20: Do you agree that an entity should 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 in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?

Response 20: We agree with the need for an allowance for a deferred tax asset associated with debt instruments measured at FVOCI to be evaluated in combination with other deferred tax assets of the entity. Our agreement with the proposal assumes entities will continue to have the option to utilize the hold to recovery tax planning strategy and can continue to consider the expected reversal of the related unrealized losses as positive evidence of future taxable income. Should the final ED result in the elimination of the hold to recovery tax planning strategy, capital positions could be significantly impacted if substantial unrealized losses on debt securities exist as of the date of adoption. This would be inappropriate and confusing to a financial statement user as the potential impact to capital would relate to deferred tax assets associated with losses that have not been realized and are not expected to be realized in the future.

Question 21: The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer's perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principal will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

Response 21: We disagree with the Board's view regarding convertible debt. Principal, assuming no credit impairment, will be returned (although not necessarily in the form of cash). The Board should allow FVOCI with any excess (equity component that is in the money) recorded in the income statement based on the intrinsic value.

Question 28: Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?

Response 28: We do believe the proposed criteria are operational. However, as worded we believe auditors/preparers will interpret the ED to be a de facto held to maturity standard. Please see our response under Question 8 for a discussion of the factors and criteria we believe are appropriate.

Question 29: Do you believe that measuring financial liabilities at fair value is operational? If not, why?

Response 29: We agree that measuring financial liabilities at fair value is operational, except for investment contracts. We do not agree that liabilities like investment contracts should be measured at fair value. Please refer to our commentary in response three for our justification.

Question 30: Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?

Response 30: We agree that the proposed criteria are operational.

Presentation

Question 32: For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity's credit standing (excluding changes in the price of credit) is appropriate, or do you believe that it is more appropriate to recognize the changes in an entity's credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?

Response 32: We do not agree that changes in an entity's credit standing should be included in net income. If the Board believes this is a relevant metric, FVOCI would be the appropriate presentation. An entity's own debt instruments should be carried at amortized cost since the business strategy is to pay the principal at maturity. Measuring fluctuations in the fair value of debt introduces meaningless volatility in the financial statements and understates future cash demands on the entity.

Question 33: Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2 for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.

Response 33: We support the ability to utilize Method 1 as it is described in Appendix B, as an entity should not be adversely affected if its credit standing has not changed between reporting dates. However, we do recognize that Method 1 would not be appropriate for all entities, as various entities may not be rated. Therefore, we believe it would be appropriate for entities to apply either method for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing based on management's judgment.

Question 34: The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities within an entity's industry, or should some other index, such as all entities in the market of a similar size or all entities in the industry of a similar size, be used? If so, please explain why another index would better measure the change in the price of credit.

Response 34: We believe an entity should be allowed to apply judgment and utilize the comparison that is appropriate for the company.

Credit Impairment

Question 37: Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?

Response 37: Yes, we believe the credit impairment model objective as described is clear.

However the objective currently states that an entity's expectations about collectability of cash flows shall include all available information related to past events and existing conditions but shall not consider potential future events beyond the reporting date. As discussed in our response to Question 46, we believe that management should consider all available information in determining its best estimate of expected cash flows, including estimates of future events which result in the most accurate measurement of impairment losses incurred.

Question 38: The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s). The IASB Exposure Draft, *Financial Instruments: Amortised Cost and Impairment* (Exposure Draft on impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an impairment gain or loss. Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

Response 38: We believe an entity should immediately recognize an impairment in net income as an impairment gain or loss when an entity does not expect to collect all contractual amounts due. Recognizing credit losses over the life of the financial instrument as a reduction in interest income assumes that credit losses occur over the life of a financial instrument, which does not reflect actual activity nor does it reflect periodic changes in financial condition as measured by future cash flows.

Question 39: Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?

Response 39: We agree that changes in expected prepayments or changes in a variable interest rate should not result in a credit impairment. Changes in expected prepayments should be reflected as an adjustment to interest income and we are not opposed to this being done on a retrospective basis, particularly for adverse changes. We do not agree with this decision in regards to foreign exchange rates. Based on the objective of credit impairments in the ED, impairment is based on an entity's expectations regarding cash flows expected or not expected to be collected. If an entity does not expect to collect the original anticipated cash flows based on foreign currency movement, we believe that loss should be recognized immediately in net income.

Question 40: For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?

Response 40: We do not believe a specific methodology for pooled assets should be prescribed as entities should be able to use their judgment in developing the most accurate estimates using all information available to them.

Question 41: Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?

Response 41: Yes, since the entity purchased the asset at a discount, any increases in expected cash flows should adjust the effective interest rate and be applied prospectively.

Question 42: If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that a credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?

Response 42: No, we do not agree with this requirement as it relates to debt securities. We recommend that an entity's intent to sell a security be included in the list of factors included in paragraph 43 of the ED, as well as the consideration of whether a financial asset's fair value is below its amortized cost. These factors, together with those listed in the ED, will result in the most accurate determination of whether an entity will collect all cash flows associated with debt securities, particularly since the fair value of debt securities is generally based on market expectations of future cash flows. Management's best estimates of expected cash flows, which are also based on observable inputs to the extent possible, will result in the most accurate measurement of impaired losses.

It is our view that once these factors have been considered for each debt security and best estimates developed for the measurement of any impairment losses for those securities deemed impaired, all cash flows not expected to be collected will have been accurately recorded. Any application of historical loss rates to securities on a pooled basis which result in additional impairments due to historical loss rates being higher than management's estimates of future cash flows represent an overstatement of impairment losses, which is inconsistent with the credit impairment objectives of the ED. i.e. impairment losses could potentially be recorded related to cash flows that the entity expects to receive. The converse is true if historical loss rates are lower than management's estimates of future cash flows, whereby impairment losses would be understated.

The application of historical loss rates to assets on a pooled basis also implies that impairment losses will be recorded for assets that are not deemed by management to be impaired. If assets are evaluated individually and the triggering factors don't lead management to conclude that they are impaired, management expects to collect all of the cash flows related to the securities. Any impairment losses recorded on a pooled basis represent an overstatement of losses and are not consistent with the objectives of the ED. Further evidence of this is the fact that losses will be recorded on securities at the time of purchase, and since the fair value of securities generally includes market expectations regarding future cash flows, the impairment loss recorded would not represent cash flows that are not expected to be collected.

Question 46: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectibility of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on Impairment proposes an expected loss approach and would require an entity to estimate credit losses on basis of probability-weighted possible outcomes. Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?

Response 46: We do not agree with the IASB's expected loss model as it relates to debt securities as we don't believe impairment losses should be measured using probability-weighted possible outcomes. We strongly favor a management's best estimate of future cash flows approach, using observable inputs to the extent possible. Evaluating all possible outcomes is unnecessary and far less operational than developing a best estimate. However, we do believe management should be able to use all available information in the estimation of future cash flows and should not be limited to past events and existing conditions. Using all available information to develop a reasonable estimate does not involve forecasting future events that are so far into the future that they affect the reliability of the estimate and result in estimates that are not reasonable. Inputs into the estimation of future cash flows should include future events or conditions that can be reliably estimated.

The incurred loss model per the ED will potentially result in the delay in recognition of impairment losses. For example, if it is management's best judgment that underlying default rates will increase in the future, a strict interpretation of the FASB's incurred loss model would require current default rates to be used in cash flow calculations. The Financial Crisis Advisory Group recognized this when they recommended that the Boards explore alternatives to the incurred loss model

- models that use more forward-looking information as they believed the incurred loss model delayed recognition of losses associated with loans and other financial instruments during the financial crisis.

The ED's incurred loss model will also result in the recording of impairment losses that management never expects to materialize and will be reversed in the future. Losses that are expected to reverse should not be included in the income statement as they cloud the performance of the Company's investment portfolio and result in meaningless volatility in the income statement.

One of the main objectives of the IASB and FASB is to focus on a principles basis of accounting vs. rules basis of accounting. Under a principles basis of accounting, management is expected to interpret and apply accounting principles using their judgment. By limiting management's analysis for impairments to include only current conditions, the Board is imposing rules as to how management should exercise its judgment in developing reasonable estimates. The determination of the reasonableness of management's judgments and estimates should be considered during the audit process and not prescribed by accounting rules.

We believe both expected loss and incurred loss models are operational.

Interest Income

Question 48: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?

Response 48: We agree that the recognition of interest income should be affected by the recognition or reversal of credit impairments as described in the proposed guidance. The proposed guidance is similar to an existing income recognition model used for debt securities where the effective interest rate generally represents the effective yield of the instrument at the time of purchase based on the originally expected cash flows. We believe the existing model for debt securities provides an accurate presentation of interest income based on an entity's income expectation upon purchase of the security and should result in lower interest income being recognized when a credit impairment exists since an entity is no longer expecting to receive a portion of the principal balance and therefore should not reflect the interest income on those cash flows that are no longer expected to be collected.

We recognize that this model for determining the effective interest rate will generally result in a constant percentage of interest income being recognized compared to the carrying value of the financial asset. While some may contend this presentation leads to overstating interest income, we do not believe this would be the case since the carrying value of the asset would be reduced for impairment and would therefore result in a lower nominal amount of interest income. The effective interest rate should represent the yield expected by an entity upon purchase and could provide comparable information between entities to evaluate the relative risk of a company's financial assets in combination with impairments that have been recognized.

Question 49: Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?

Response 49: We agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected should be recognized as an increase to the allowance for credit losses.

Question 50: The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?

Response 50: Yes, we believe that interest income recognition guidance should be the same for all financial assets.

Question 51: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?

Response 51: We believe the implementation guidance and illustrative examples provided are helpful. However, we would appreciate examples related to the pooled impairment analysis for securities other than loans, as well as examples of the pooled analysis subsequent to an individual impairment analysis not identifying an impairment if that requirement remains in the final accounting standard. Implementation guidance related to the types of pools to be considered would also be appreciated.

Hedge Accounting

Question 56: Do you believe that modifying the effectiveness threshold from *highly effective* to *reasonably effective* is appropriate? Why or why not?

Response 56: Yes, we agree with the modification of the effectiveness threshold from highly effective to reasonably effective. We believe the highly effective threshold was too high a standard to be met and prevented the accounting from accurately reflecting the economic purpose of certain transactions.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?

Response 57: No, we believe an effectiveness evaluation should be required only if there are indications that a hedge may not be reasonably effective anymore. We believe requiring an effectiveness evaluation under any circumstance is creating unnecessary work for entities.

Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?

Response 58: Yes, mainly due to the threshold reduction to reasonably effective from highly effective.

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?

Response 61: We do not anticipate any operational concerns regarding the calculation for cash flow hedges.

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

Response 62: We do not anticipate significant operational concerns surrounding processes to determine when changes in circumstances suggest a hedging relationship may no longer be reasonably effective.

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

Response 63: We do not anticipate any significant operational concerns related to the inability to discontinue fair value or cash flow hedge accounting by dedesignating the hedging relationship.

Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?

Response 64: We do not anticipate any operational concerns related to the documentation requirement of a terminated hedging derivative attributable to an offsetting derivative.

Disclosures

Question 65: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?

Response 65: We agree with the proposed disclosures.

Effective Date and Transition

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

Response 68: We agree with the transition provision in the ED.

Question 69: Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than $1 billion in total consolidated assets? If not, why?

Response 69: We are concerned with this proposed delayed effective date based on comments in the basis of conclusions. Paragraph 252 mentions that this deferral would apply to over 90% of banks and credit unions in the United States. As it appears that banks are the intended focus of the proposed accounting standard, we agree with Ms. Seidman and Mr. Smith that this exclusion calls into question the cost-benefit of the model.

Question 70: How much time do you believe is needed to implement the proposed guidance?

Response 70: We believe we can implement the proposed guidance by January 1, 2013, the date provided for operational questions in the ED. However, we believe the effective date should be aligned with the effective date of the anticipated Insurance Contracts discussion paper.

Question 71: Do you believe the proposed transition provision is operational? If not, why?

Response 71: Yes, we believe the proposed transition provision is operational.