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Technical Director – File Reference No. 2011-150  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: FASB Supplementary Document, Impairment**

Liberty Mutual Group (“LMG”) is a diversified global insurer and the fifth largest property and casualty insurer in the United States based on 2009 direct written premiums. We appreciate the opportunity to comment on the Supplementary Document issued by the Financial Accounting Standards Board (FASB) on the proposed impairment model. LMG has an interest in the proposed impairment model both as an investor, with an investment portfolio of over \$70 billion as of December 31, 2010, and as a preparer of U.S. GAAP financial statements.

Given that the International Accounting Standards Board (IASB) has also released an exposure draft on proposed impairment guidelines on the same timeline as the FASB, it is critical for the FASB to continue collaboration with the IASB and thoughtfully develop its approach for impairments and take the necessary time to evaluate the practical implementation issues associated with changes, including: costs to prepare, consistency of application, and implications to investors and the capital markets. A converged standard for impairments is necessary to promote comparability for users of financial statements internationally, as well as reduce operational complexities for entities required to prepare financial statements in multiple international jurisdictions. While a consistent impairment model is a crucial step in the Boards’ commitment to the convergence of U.S. and international accounting standards, the question of why the current U.S. GAAP impairment model for securities is not adequate has yet to be answered.

The basic construct of the impairment model under ASC 320-10-35, *Recognition and Presentation of Other-Than-Temporary Impairments*, has been used in practice for over a decade and has improved with the bifurcation of impairments between credit and non-credit. Further, the improved model has been truly tested under the worst financial crisis in recent history, especially for fixed income securities. As an investor with a \$70 billion investment portfolio, we are comfortable with how financial statements are presented for fixed income securities under the current model today. The issue is not the current impairment model itself but the inconsistency in its application. For example, a syndicated loan originated by a financial institution is permitted to be recorded at amortized cost on the originating institution’s balance sheet. The same loan, once sold to an investor, is recorded on the investor’s balance sheet at fair value. As a result, there are two different impairment models for the same instrument (i.e. issue of “too little, too late” on the originating institution’s loans held at amortized cost).

The current impairment guidance under FASB ASC 320-10-35 is effective in assessing impairments for individually managed securities (i.e., debt securities). Implementing the proposed impairment

model within the Supplementary Document for debt securities would require us (and most preparers) to account for impairments in a manner that is not consistent with our risk management approach, and we do not believe it will be operational or representative of the nature in which we manage securities. The proposed impairment model may be adequate in assessing impairments for assets managed on a pooled/portfolio level (i.e., loans) and we urge the Board to consider the fact that it may be appropriate to have separate models for assets where credit risk is managed differently (i.e., loans versus debt securities). The FASB offers no compelling reason to change the current impairment model for securities, and we strongly urge the Board to refrain from changing the current impairment model, which has worked well for over a decade.

We have participated in discussions with the Group of North American Insurance Enterprises (“GNAIE”) in addressing the proposed impairment model, and express our support of the content contained within GNAIE’s comment letter as submitted to the FASB.

## **INVESTOR PERSPECTIVE**

### *Usefulness of Proposed Guidance*

As investors and users of financial statements, we do not believe the proposed impairment model will provide readers with information that is useful in decision-making. In selecting and evaluating investments for our portfolio, we focus on quantitative and qualitative information such as changes in unrealized and realized gains and losses as well as credit quality and fair value information already disclosed within the investee’s financial statements and supplementary documents. We believe the market to be the most reliable and accurate source for pricing securities and the proposed impairment guidance will not change the manner in which we evaluate investments for our portfolio. As such, we believe the proposed guidance is not useful and actually contradictory to *Statement of Financial Accounting Concepts No. 8*, which states:

*The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit.*

In fact, the proposed standard provides no more transparency than current GAAP.

### *Comparability*

Moreover, we are concerned with the comparability of financial statements under the proposed guidance. As the proposed guidance is silent as to the aggregation method required in evaluating impairments, this allows entities to select their own method, which will result in disparities in practice. Expected credit loss estimates will largely vary based on the aggregation method selected and will place a burden on readers and investors to determine if one entity’s calculation of expected losses is comparable with another.

## **PREPARER PERSPECTIVE**

### *Operational Complexities*

As preparers of U.S. GAAP financial statements, bifurcating assets into a ‘good book’ and ‘bad book’ is not consistent with how we manage our business. We believe that the proposed guidance is geared toward the manner in which banking institutions manage their loan portfolio assets, which does not

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necessarily translate well across all industries and asset types (e.g., securities). In addition, the proposed guidance would impose significant financial and operational costs in implementing additional policies, processes and controls in order to comply with an accounting model that is not representative of our business operations. Alternatively, allowing entities to evaluate assets at an individual or pooled/portfolio level based on their credit risk management policies (as opposed to explicitly requiring the 'good book' and 'bad book' concept) would serve as a more efficient and effective alternative across all industries rather than one model fits all. Furthermore, the FASB has been historically against the recording of general reserves and it appears the proposed guidance to establish a reserve for the good book is doing just that.

While we believe the guidance under ASC 320-10-35 is operational and effective, we do support modifying the current impairment model to allow for subsequent recovery of impairments previously taken to converge to current IFRS guidance.

### *Comparability*

The proposed accounting model requires impairment calculations to incorporate forecasts of future events and economic conditions, which is very subjective and likely to cause comparability issues between financial statements. Each entity will interpret 'reasonable and supportable forecasts of future events and economic conditions' differently, making it difficult to compare financial statements across entities and industries. Further, an entity's evaluation of its forecast's assumption reasonableness may differ from evaluations by third parties (i.e., auditors, regulators, etc.) based on information available to each. These items will present challenges for both the entity and third parties in supporting and auditing future forecasts.

Thank you for the opportunity to comment on the Supplementary Document. We hope these comments assist you during your redeliberations of the proposed impairment model. We strongly suggest that the larger investment/capital markets community should be surveyed to provide insight as to the users' perspective of the proposed changes.

Sincerely,



John D. Doyle  
Senior Vice President & Comptroller  
Liberty Mutual Group