

Liberty Mutual Group

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June 17, 2011

Ms. Leslie Seidman, Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: ASU Topic 2010-26: Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

Dear Chairman Seidman:

Liberty Mutual Group (LMG) is a diversified global insurer and the sixth largest global property and casualty insurer in the world. As of March 31, 2011, LMG has approximately \$114 billion in consolidated assets and \$96 billion in consolidated liabilities. Our consolidated revenues were approximately \$33 billion for the year ended December 31, 2010.

We appreciate the opportunity to provide the Financial Accounting Standards Board ("FASB") with our comments pertaining to ASU Topic 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ("ASU 2010-26").

We respectfully request that the FASB reconsider the effective date of ASU 2010-26. We understand that the FASB has been working in conjunction with the International Accounting Standards Board ("IASB") on issuing a converged standard on insurance contracts. As a final consensus has not been reached on the treatment of acquisition costs in conjunction with the insurance contracts project, we believe that the changes made to comply with ASU 2010-26, which include but are not limited to costs associated with accounting system modifications and employee training costs associated with implementation of a new accounting standard, could prove to be only temporary. We strongly believe that this is an inefficient use of the industry's capital and resources. We recommend that the FASB work closely with the IASB to achieve convergence in the definition of acquisition costs. In addition, considering the revised timeline for publication of the exposure draft on insurance contracts, we request a deferral of ASU 2010-26 until 1/1/2013.

Furthermore, we believe the approach taken by the IASB on DAC is the correct approach. Both successful and unsuccessful costs should be considered for deferral. Although the FASB believes that more consistency is needed among insurers, the standard does the exact opposite. It codifies inconsistency by inadvertently letting the distribution channel determine the portion of acquisition costs capitalized.

By way of example, consider two insurers, identical in all respects except distribution channel. One (company A) is a "direct writer" that employs its sales staff and the other (company B) distributes through the independent agency system. Company A has a salaried sales force and expects that this sales force will generate \$500 million of new business annually with a run rate cost of \$75 million (salary, benefits, etc). Company B simply pays its third party agents a commission of 15% for business underwritten only. Assume the following:

	Company A	Company B
New business quoted	\$1,000,000,000	\$1,000,000,000
New business underwritten	\$500,000,000	\$500,000,000
Acquisition costs - direct sales force costs	\$75,000,000	\$0
Acquisition costs – commissions to 3 rd parties	\$0	\$75,000,000
Successful efforts % (per FASB model)	50%	100%
Capitalized expenses	\$37,500,000	\$75,000,000

As can be seen, Company A's acquisition costs are interpreted as being 50% successful, despite achieving the new business that the operating model was designed to produce. Company B's acquisition costs are deemed to be 100% successful because they are paid via commission to a third party based upon business underwritten only. Thus, two businesses with the same economics have very different accounting results because of their distribution model.

Interestingly, if Company A changes its sales force compensation so that salary and benefits are replaced by commissions on business underwritten only, it will get an accounting result consistent with Company B, despite no real change in its business model. Is this form over substance really what FASB intends?

Additionally, we agree that the true asset for deferral is the successful contract. However, the costs associated with generating a successful contract versus unsuccessful efforts are not binary. They must be evaluated in aggregate in the context of the operating model. In the example above, Company A's operating model is designed to underwrite 50% of the business quoted (and the product price assumes this relationship). As such, underwriting 50% of the business quoted is a successful aggregate effort of the sales force. Alternatively, underwriting 40% of business quoted would be 80% successful.

In summary, LMG urges the FASB to continue to work with the IASB to come to a converged definition of acquisition costs. As mentioned, we are not in support of the current standard and believe there should be no distinction between unsuccessful and successful costs – consistent with the position of the IASB. Until these issues can be resolved, ASU 2010-26 should be

deferred to avoid unnecessary incurred costs and re-work by companies adopting the guidance. LMG recommends a deferral of one year.

Sincerely,

John Doyle

Senior Vice President & Comptroller

Liberty Mutual Group

Cc: Mr. James L. Kroeker Chief Accountant Office of the Chief Accountant Securities and Exchange Commission 100 F Street, NE Washington, DC 20542-1090