Via Email: director@fasb.org

May 15, 2013

Technical Director
File Reference No. 2013-220
Financial Accounting Standards Board
401 Merrit 7
Post Office Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standard Update, Subtopic 825-10: Financial Instruments – Overall; Exposure Draft; File Reference No. 2013-220

Dear Technical Director:

Lincoln National Corporation ("LNC", "we", or "us") appreciates the opportunity to comment on the Proposed Accounting Standard Update, Subtopic 825-10: Financial Instruments – Overall ("FASB ED"). LNC is a holding company which operates multiple insurance and retirement businesses in the United States through subsidiary companies. Through our business segments we sell a wide range of wealth protection, accumulation and retirement income products and solutions. As of March 31, 2013 we had consolidated assets of $224 billion, with total investments of $99 billion.

We have been following the FASB’s joint project with the IASB to evaluate the accounting for financial instruments, including classification and measurement. We support the efforts of the FASB to ensure the existence of high-quality accounting standards for financial instruments. We believe that any changes made to existing U.S. GAAP should be done so only after careful consideration and should result in an improvement to the reliability and understandability of financial statements rather than resulting solely from a desire to converge with International Financial Reporting Standards ("IFRS").

As drafted, we do not believe the proposal in the FASB ED results in an increase of decision-useful information and a reduction in complexity, which were the stated objectives of the project. While a certain amount of complexity exists under U.S. GAAP, we believe the proposal in the FASB ED introduces operational challenges and even further complexity, and results in financial statement presentation that is inconsistent with how life insurance companies manage their business.

We prefer the current classification and measurement approach under U.S. GAAP for financial instruments which allows us to appropriately report our financial results in a manner that is consistent with our asset-liability management business model. The prominence of the cash flow characteristics assessment in the proposed guidance will result in fair value changes for certain instruments being recorded immediately in net
income despite many of these instruments being held within a business model where trading or selling within the near term is not the objective. As a result, a life insurance company’s earnings under the proposed guidance will become more volatile as more financial instruments are classified and measured at fair value through net income (“FV-NI”). This volatility in earnings will not be indicative of the life insurance company’s performance and would, in our view, provide misleading performance information to financial statement users.

Invested assets are an integral part of our operations. We follow a balanced approach to investing for both current income and prudent risk management, with an emphasis on generating sufficient current income, net of income tax, to meet our obligations to customers, as well as other general liabilities. This balanced approach requires the evaluation of expected return and risk of each asset class utilized, while still meeting our income objectives. This approach is important to our asset-liability management because decisions can be made based upon both the economic and current investment income considerations affecting assets and liabilities.

We have the ability to maintain our investment holdings throughout credit cycles because of our capital position, the long-term nature of our liabilities, and the matching of our portfolios of invested assets with the liabilities of our various products.

After considering our investment strategy and business model, we believe the current classification and measurement model under U.S. GAAP provides decision-useful information that is consistent with the underlying business model of life insurance companies. This model has been carefully and thoughtfully developed by the FASB over the years and should not be abandoned solely from a desire or perceived need to converge with IFRS. Specifically, we support the following existing principles under U.S. GAAP:

- Securities that are actively sold being classified as trading and measured at fair value through net income (“FV-NI”),
- Securities that are held to maturity being measured at amortized cost (“AC”),
- All other securities classified as available for sale and measured at fair value with changes in fair value being recorded through other comprehensive income (“FV-OCI”). This principle results in assets that are both held for the collection of cash flows and sold to be recorded at FV-OCI, which is consistent with the asset-liability management business model of life insurance companies.
- Features within financial assets and liabilities that qualify as an embedded derivative are bifurcated and reported at fair value.

The principles enumerated above result in financial statement presentation that is meaningful, well-understood and provides decision-useful information to financial statement users. Furthermore, such principles result in classification and measurement of financial assets that is consistent with our investment approach and underlying business model as described above.

While we generally do not believe accounting treatment should drive business decisions, including investing decisions, should the FASB pursue the classification and
measurement model in the FASB ED, we believe the outcome could cause life insurance companies to modify their investing activities and not purchase certain securities that will be classified and measured at FV-NI where such classification is not consistent with the company's underlying business model (as is generally the case for life insurance companies). This could significantly impact the market for these categories of investments.

We are concerned with the classification and measurement model in the FASB ED and do not believe it achieves the stated project objectives of reducing complexity and increasing the decision-usefulness of financial statements. Furthermore, we believe that application of this model would result in measurement that is inconsistent with our asset-liability management business model, would not produce decision-useful information, and would increase the reliance on non-GAAP measures in financial reporting. This could also lead entities to make investment decisions based on accounting treatment instead of sound business models. Accordingly, we urge the FASB to retain the existing classification and measurement model under U.S. GAAP.

We appreciate the opportunity to express our views on issues related to the FASB ED. We have provided answers to selected questions posed in the FASB ED in the attached appendix. If you have any questions regarding our comments please contact me at (484) 583-1430.

Sincerely,

[Signature]

Douglas N. Miller
Senior Vice President and Chief Accounting Officer
Responses to Select Questions

Scope

Questions for All Respondents

1. Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?

   We do not agree with the model proposed in the FASB ED; however, we do not have any issues with the scope of financial instruments included therein.

2. Do you agree with the industry-specific specialized scope exceptions in paragraph 825-10-15-9? If not, why? What would you propose instead?

   No comment.

Recognition

Questions for Users

3. The proposed amendments would require an entity to classify financial assets into the appropriate subsequent measurement category (that is, at amortized cost, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at fair value with all changes in fair value recognized in net income) on the basis of the contractual cash flow characteristics of the instrument and the business model within which financial assets are managed. Does the classification of financial assets based on the cash flow characteristics and the business model assessment provide decision-useful information? If yes, how will this classification influence your analysis of the entity? If not, why?

   As users of financial statements, we do not believe the classification of financial assets based on the cash flow characteristics and the business model assessment will provide decision-useful information. We believe the current classification and measurement model under U.S. GAAP is well understood and provides decision-useful information to users. This model results in assets that are both held for the collection of cash flows and sold to be recorded at FV-OCI, which is consistent with the asset-liability management business model of life insurance companies. Because FV-OCI assets are recorded at fair value on the income statement, the unrealized gain/loss is available in other comprehensive income to provide users with information regarding the change in fair value that was not recorded through the income statement for the period.

   We believe the proposal in the FASB ED introduces complexity, and results in financial statement presentation that is inconsistent with how life insurance companies manage their business. The prominence of the cash flow characteristics assessment in the proposed guidance will result in fair value changes for certain instruments being recorded immediately in net income despite many of these instruments being held within a business model where trading or near-term selling is not the objective. As a result, a life insurance company’s earnings under the proposed guidance will become more volatile as more
financial instruments are classified and measured at FV-NI. This volatility in earnings will not be indicative of the life insurance company’s performance and would not provide decision-useful financial performance information to users. Moreover, increased volatility that is not consistent with the economics of a company’s business model will cause the introduction of non-GAAP measures and will reduce the relevance and reliability of financial statements prepared under U.S. GAAP.

Questions for All Respondents
4. Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?

Not in all cases. As currently drafted, we believe the classification and measurement model would result in certain assets being recorded at FV-NI when such classification is not consistent with the underlying business model and the investing strategy of the company. This is due to the restrictive nature of the solely payments of principal and interest (“SPPI”) test, including the use of the term “solely” and the definition of “principal”. Operationally, the effort and additional cost needed to build processes and procedures to determine, categorize and assess contractual cash flow characteristics will be immense and the audit process will become much more complex but will still not result in providing more decision useful information from applying the SPPI test.

We believe recording securities at FV-OCI or AC is consistent with the business models generally employed by insurers, where the underlying business model is both to hold to collect contractual cash flows and sell securities. As a life insurance company, we operate under an asset-liability management business model, which requires that we purchase investments for our segmented portfolios that have yield, duration and other characteristics that take into account the liabilities of the products being supported. We have the ability to maintain our investment holdings throughout credit cycles because of our capital position, the long-term nature of our liabilities and the matching of our portfolios of investment assets with the liabilities of our various products.

In addition to the SPPI test, we believe the current approach in the proposal which defines FV-NI as the default category also contributes to the classification and measurement of certain investments at FV-NI. As noted above, this is inconsistent with the underlying business model associated with those investments for life insurance companies.

Should the FASB pursue the classification and measurement model in the FASB ED, we believe the outcome of the proposed classification and measurement guidance could cause life insurance companies to modify their investing activities and not purchase certain securities that will be classified and measured at FV-NI where such classification is not consistent with the company’s underlying
Responses to Select Questions

business model (as is generally the case for life insurance companies). While we generally do not believe accounting treatment should drive business decisions, including investing decisions, in this case we believe the FASB ED would have an adverse effect on investing decisions and significantly impact the market for these categories of investments.

5. The proposed amendments define principal as the amount transferred by the holder at initial recognition. Should the definition of principal be expanded to include repayment of the principal amount at maturity or other settlement? If so, what instruments would fail (or pass) the contractual cash flow characteristics criterion as a result of this change?

We believe one of the issues with the SPPI test is the definition of principal. However, rather than implementing the complex model outlined in the FASB ED and providing whatever “fixes” are necessary to remedy unintended consequences, we believe the FASB should retain the existing classification and measurement model under U.S. GAAP, which results in the presentation of meaningful and decision-useful information and is consistent with the asset-liability management business model of life insurance companies.

6. Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?

We do not support the model proposed in the FASB ED; therefore, we have no comment on the application guidance and illustrations provided therein.

7. Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?

We believe the cash flow characteristics assessment, particularly the details of applying the SPPI test in the model proposed in the FASB ED, is overly complex and does not improve the decision-usefulness of financial statements.

Specifically, we are concerned about the application of the SPPI test to beneficial interests in securitized assets (discussed further in our response to question #9) and loans that contain certain contractual features that modify the amount and/or timing of cash flows, including terms that modify the economic relationship, such as leverage and interest rate reset features, prepayment options, etc. In many cases the existence of these features serves to preserve the collection of contractual cash flows (e.g. prepayment premiums); however, application of the SPPI test could result in these features causing the loan to be classified at FV-NI. We do not believe a potential modification of the amount and/or timing of cash flows, as contemplated by the contractual terms of the financial instrument,
Responses to Select Questions

especially one that is immaterial or serves to preserve the collection of contractual cash flows, should cause a financial instrument to be classified and measured at FV-NI if that classification is inconsistent with the underlying business model and investing strategy of the entity, as is the case for life insurance companies.

Classifying financial assets with features that modify the amount and/or timing of cash flows as FV-NI may create an accounting mismatch with related life insurance liabilities, which are generally measured at something other than FV-NI.

We are concerned about the complexity that would be introduced by requiring the comparison to benchmark cash flows, as we believe this could introduce the concept of “hypothetical assets”, similar to the “hypothetical derivatives” that exist in evaluations under the long haul method for hedge accounting. Instead, we support a classification and measurement model that allows for recording all loans at FV-OCI or AC, as it is consistent with the business models generally employed by insurers.

Rather than implementing the complex model outlined in the FASB ED, we urge the FASB to retain the existing classification and measurement model under U.S. GAAP, which results in classification and measurement of financial assets in a manner that is consistent with the asset-liability management business model of life insurance companies.

8. Do the proposed amendments contain sufficient application guidance in paragraphs 825-10-55-17 through 55-20 on assessing a modified economic relationship? If not, why?

We do not support the model proposed in the FASB ED; therefore, we have no comment on the application guidance provided therein.

9. For beneficial interests in securitized financial assets, the proposed amendments would require an entity to look through to the underlying pool of instruments in determining whether the tranche contains payments of solely principal and interest. Do you agree with this look-through approach? If not, why? What would you propose instead?

We believe the cash flow characteristics assessment, particularly the details of applying the SPPI test, in the model proposed in the FASB ED is overly complex and does not improve the decision-usefulness of financial statements. This is especially true for the application of the SPPI test to beneficial interests in securitized financial assets. We believe that the application of the SPPI test could limit the securities that could be reported at other than FV-NI. We are concerned about such an outcome, as it would result in significant earnings volatility for insurers that would be inconsistent with our asset-liability management business model and be viewed negatively by investors. As life insurance companies are
Responses to Select Questions

large investors\(^1\) in structured securities, this consideration could ultimately reduce
the demand for these securities in the marketplace.

Rather than implementing the complex model outlined in the FASB ED, we urge
the FASB to retain the existing classification and measurement model under U.S.
GAAP, which would result in the classification and measurement of beneficial
interests in financial assets similar to other debt investments and result in FV-OCI
measurement. The vast majority of structured securities owned by us and others
in the life insurance industry are comprised of underlying pools of collateral that
primarily include bonds and/or loans. Because structured securities possess
characteristics similar to other debt instruments, we do not believe a potential loss
of principal and interest as a result of structured subordination should be a
consideration when determining the proper classification and measurement of
these investments; rather, credit exposure is more appropriately addressed in the
FASB’s proposal for measuring expected credit loss for financial instruments.

Classifying structured securities as FV-NI may create an accounting mismatch
with related life insurance liabilities, which are generally measured at something
other than FV-NI. As a result, structured securities should be permitted to be
classified and measured based upon an entity’s business model. We also do not
agree that short term volatility in the fair value of structured securities should be
reflected in net income when the gains or losses have yet to be realized through
the sale of the security or recognition of an other-than-temporary impairment (as
defined in current U.S. GAAP) or expected credit loss (under the proposed
guidance). In current U.S. GAAP, topic 320 in conjunction with ASU 2010-11,
*Derivatives and Hedging: Scope Exception Related to Embedded Credit
Derivatives*, structured securities are typically reported as fixed income securities
at fair value with periodic fair value changes reported in other comprehensive
income (i.e. available-for-sale securities under Topic 320). We support the
current classification and measurement that allows for recording structured
securities at FV-OCI or AC, as it is consistent with the debt-like characteristics of
structured securities and the business models generally employed by insurers. We
believe the model for structured securities should allow FV-OCI for all structured
securities where the business model is to hold to collect contractual cash flows
and sell.

Should the FASB retain the proposed guidance in the FASB ED, we believe it
will reduce investors’ desire to invest in these securities and unfavorably impact
the structured security market, which relies on the availability of investors in the
subordinated tranches. While we generally do not believe accounting treatment
should drive business decisions, including investing decisions, in this case we
believe the FASB ED would have an adverse effect on investing decisions and
significantly impact the market for these categories of investments.

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\(^1\) In its letter to the FASB dated November 5, 2012, the American Council of Life Insurers indicated that
based on recent information, insurers invest in excess of an estimated $250 billion in the subordinated
tranches of structured securities.
Responses to Select Questions

In addition, we believe the proposal in the FASB ED could cause inconsistency in financial reporting from one company to the other based on the timing of purchase, given the proposal requires the cash flow characteristics to be evaluated only upon purchase. For example, if one company purchased a subordinate tranche at origination and another purchased the same tranche after the senior tranche was paid off (i.e. after receiving full payment of principal and interest), the first company (i.e. the company that purchased at origination) would likely be required to report the investment at FV-NI because the tranche could experience losses that are proportionately higher than the losses of the underlying collateral pool (i.e. it is a subordinated tranche); whereas, when the second company purchased the same tranche after the senior tranche was paid off, it would be considered the senior tranche (no longer subordinate because the prior senior tranche was extinguished) and would be allowed to report the tranche as FV-OCI or AC, depending on its business model. Although the underlying characteristics of the tranche and the underlying pool are exactly the same (i.e., provide contractual principal and interest cash flows) and assuming the business model is the same for both companies, the investment could be reported inconsistently from company to company depending on the performance and expectations of the underlying collateral pool at the time of purchase. We believe this would be an unintended consequence of the proposal which would result in inconsistency in financial reporting of assets with similar characteristics held under similar business models. Such inconsistency would decrease the decision-usefulness of the financial statements when comparing companies within the life insurance industry and would increase the complexity of the financial reporting. These outcomes are inconsistent with the stated objectives of this project.

Rather than implementing the complex model outlined in the FASB ED, we urge the FASB to retain the existing classification and measurement model under U.S. GAAP, which results in classification and measurement of financial assets in a manner that is consistent with the asset-liability management business model of life insurance companies.

10. Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?

No. We do not believe the proposed amendments appropriately convey the principle associated with the business model assessment in all cases. We believe the restrictions that result from application of the SPPI test will in some instances cause financial instruments to be classified and measured at FV-NI in cases where such classification and measurement is inconsistent with the underlying business model of life insurance companies. This is further exacerbated by the fact that FV-NI is the “default” measurement category under the proposed model. We believe that financial instruments when not held for trading purposes should be recognized at AC or FV-OCI based on the underlying business model of holding to collect cash flows or both holding to collect cash flows and selling the financial
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assets. This approach would consider both the reporting entity’s strategy for the financial assets as well as its business model.

We believe the current classification and measurement model under U.S. GAAP provides decision-useful information that is consistent with the business model of life insurance companies. Specifically, we support the following existing principles under U.S. GAAP:

- Securities that are actively sold being classified as trading and measured at FV-NL,
- Securities that are held to maturity being measured at AC,
- All other securities classified as available for sale and measured at FV-OCI. This principle results in assets that are both held for the collection of cash flows and sold to be recorded at FV-OCI, which is consistent with the asset-liability management business model of life insurance companies.
- Features within financial assets and liabilities that qualify as an embedded derivative are bifurcated and reported at fair value.

The principles enumerated above result in financial statement presentation that is meaningful, well-understood, and provides decision-useful information to financial statement users. Furthermore, such principles result in classification and measurement of financial assets that is consistent with our underlying business model and investment strategy. Accordingly, we urge the FASB to retain the existing classification and measurement model under U.S. GAAP.

11. Do the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the proposed guidance provided to describe those business models? If not, why?

We do not support the model proposed in the FASB ED; therefore, we have no comment on the application guidance provided therein.

12. Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?

We believe the classification and measurement model for financial instruments should rely on the principle and exercise of professional judgment. While we do not support the classification and measurement model proposed in the FASB ED, we do support elimination of the explicit tainting notion that exists under current U.S. GAAP. We believe financial assets should be classified and measured at AC if the expectation at the time of issue is that they will be held to maturity. Absent the explicit tainting notion, we believe more assets held by life insurance companies could be measured at AC based on their asset-liability management business model. We believe some level of sales activity should be permitted out
of this category if it results from changes in a company's business model and/or results from unusual economic circumstances that could not be anticipated, although we do believe such sales activity should be infrequent.

13. The proposed amendments would require loan commitments, a revolving line of credit, or a commercial letter of credit (the potential creditor) to be measured on the basis of the likelihood of exercise of the commitment and the classification of the underlying loan that would be made upon exercise of the commitment. Do you agree with the proposed classification of loan commitments? If not, why? What would you propose instead?

No, we do not agree with the proposed classification of loan commitments, as it would result in more loan commitments to be measured at fair value. We believe that existing U.S. GAAP should be retained, which would result in loan commitments measured at FV-NI only if they are issued to originate mortgage loans that will be held for sale.

Initial Measurement
Questions for All Respondents
14. Do you agree with the initial measurement principles for financial instruments? If not, why?

We do not have a specific issue with the initial measurement principles for financial instruments, i.e. we believe AC and FV-OCI financial instruments should be initially measured at transaction price and FV-NI financial instruments should be initially measured at fair value. We view this aspect of the proposal as being largely consistent with the guidance in current U.S. GAAP.

Subsequent Measurement
Questions for All Respondents
16. Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?

We have no objection to measuring financial liabilities at amortized cost, unless certain exceptions are met. However, we have issues with the proposed guidance on financial liabilities for which the fair value option is selected. We have financial liabilities that are bifurcated and accounted for at fair value under current U.S. GAAP, which we believe will be continued to be bifurcated and accounted for at fair value under the FASB ED.

Under current U.S. GAAP, changes in the fair value of a financial liability designated under the fair value option that result from a change in the instrument-specific credit risk are included in net income. The proposed guidance would require the portion of a change in the fair value of a financial liability (designated under the fair value option) resulting from a change in instrument-specific credit risk to be recognized in other comprehensive income and presented separately.
Responses to Select Questions

That proposed amendment would improve the relevance of the information about financial liabilities measured at fair value by excluding from net income gains or losses that the entity may not realize because those financial liabilities designated under the fair value option are not usually settled at their fair value before maturity.

We believe this treatment should be extended to all financial liabilities that are bifurcated and measured at fair value, not just those for which the fair value option is elected. For example, we sell variable annuity products that contain guarantees that are bifurcated and accounted for as embedded derivatives and measured at fair value through net income under current U.S. GAAP. Our understanding is that this bifurcation and measurement at fair value through net income would continue under the proposal in the FASB ED. Part of the fair value measurement includes instrument-specific credit risk (which is also referred to as a company's "own credit risk" or "nonperformance risk"). As a result of this accounting, we have developed a non-GAAP measure that excludes the impact of changes in the instrument-specific credit risk from our operating income, as we do not believe such information is relevant or useful to financial statement users. We believe recognizing the instrument-specific credit risk in other comprehensive income would be an improvement over U.S. GAAP and would provide meaningful and decision-useful information to users of our financial statements without the use of a non-GAAP measure.

17. The proposed amendments would require a nonrecourse financial liability that is settled with only the cash flows from the related financial assets (see paragraph 825-10-35-11) to be measured on the same basis as those assets. Do you agree with the proposed amendments? If not, why? What would you propose instead?

While we do not support the classification and measurement model proposed in the FASB ED, we believe the nonrecourse financial liability guidance in the FASB ED would better link the measurement of nonrecourse financial liabilities to the related assets.

18. The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain, unless the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?

Rather than implementing the complex model outlined in the FASB ED, we urge the FASB to retain the existing classification and measurement model under U.S. GAAP, which results in classification and measurement of financial assets in a manner that is consistent with the asset-liability management business model of life insurance companies.
Responses to Select Questions

19. The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 825-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?

Rather than implementing the complex model outlined in the FASB ED, we urge the FASB to retain the existing classification and measurement model under U.S. GAAP, which results in classification and measurement of financial assets in a manner that is consistent with the asset-liability management business model of life insurance companies.

20. Should an entity evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured as fair value with qualifying changes in fair value recognized in other comprehensive income separately from the other deferred tax assets of the entity (rather than combined and analyzed together)? If not, why?

We support current practice, under which the valuation allowance analysis can be performed separately or together with the evaluation of other deferred tax assets, as it is more consistent with the overall tax management activities of the company based on what management believes will ultimately be realized in the tax return (as is the basis of ASC 740).

21. Under the amendments in this proposed Update, hybrid financial assets would not be required to be analyzed for bifurcation under Subtopic 815-15, and the financial liability host contract would be subject to the proposed amendments. Do you agree with this proposal? If not, why? What would you propose instead?

We believe the current classification and measurement model under U.S. GAAP provides decision-useful information that is consistent with the business model of life insurance companies. Specifically, we support principles under U.S. GAAP which result in features within financial assets and liabilities that qualify as an embedded derivative being bifurcated and reported at fair value.

We do not believe the features that qualify as embedded derivatives should cause the entire financial asset to be recorded at FV-NI. Rather the FASB should retain the existing embedded derivative guidance for both financial assets and financial liabilities while providing companies the option to record the entire financial asset or financial liability at fair value to avoid accounting mismatches.

22. The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?
Responses to Select Questions

While we do not support the classification and measurement model proposed in the FASB ED, we believe the model should rely on the principles and exercise of professional judgment. Accordingly, we would support reclassification of financial assets among classification and measurement categories when changes in business model occur and would support elimination of the explicit tainting notion that exists under current U.S. GAAP.

Presentation
Questions for Users
23. The proposed amendments would require public entities to parenthetically present fair value for items measured at amortized cost on the face of the statement of financial position. Does that presentation requirement provide decision-useful information? If not, why? What would you propose instead?

We are concerned with many of the requirements to present information parenthetically on the face of the financial statements as this presentation tends to clutter the face of the financial statements with extraneous information that is more appropriately disclosed in the notes to the financial statements. We believe the current presentation and disclosure requirements under U.S. GAAP provide meaningful and decision-useful financial information and the parenthetical disclosures should not be required.

24. The proposed amendments would exempt nonpublic entities from parenthetical and footnote disclosures of fair value. Should nonpublic entities be required to parenthetically present fair value information on the face of the statement of financial position for financial instruments measured at amortized cost? If not, should fair value disclosures in notes to the financial statements be required for some or all nonpublic entities for financial instruments measured at amortized cost?

No comment.

25. The proposed amendments would require an entity to separately present changes in fair value attributable to changes in instrument-specific credit risk in other comprehensive income for financial liabilities for which that entity has elected the fair value option. Would the proposed presentation requirement provide decision-useful information? If not, why? What would you propose instead?

We believe the current presentation and disclosure requirements under U.S. GAAP provide meaningful and decision-useful financial information.

Questions for Preparers and Auditors
26. The proposed amendments would require an entity to separately recognize in net income changes in fair value attributable to foreign currency gain or loss on foreign-currency-denominated debt securities measured at fair value through other comprehensive income (see paragraphs 825-10-45-14 through 45-15). Is the proposed
Responses to Select Questions

fair-value-based method provided for computing the foreign currency gain or loss component operable? If not, why? What would you propose instead?

We believe the current presentation and disclosure requirements under U.S. GAAP provide meaningful and decision-useful financial information.

Disclosures

Questions for All Respondents

29. Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?

We are concerned with the proposed rollforward disclosures that are required on a quarterly basis. We believe this quarterly requirement is overly burdensome and suggest this should be an annual disclosure requirement.

The focus of any changes to disclosure requirements should be to provide clear, concise and useful information about the most significant risks, challenges and opportunities that drive shareholder value. We believe the proposed guidance as drafted will not improve the ability of investors, analysts, and other users of financial statements to understand the challenges, risks and opportunities of an insurance company. In addition, the proposed guidance as drafted is overly burdensome, which will result in increased cost to the preparer, which diminishes shareholder value if investors are not able to use the information to make a more informed investment decision. As currently drafted, the proposed guidance appears to focus on disclosing additional data, much of which is very complicated and voluminous, which could ultimately lead to misinterpretation by users.

We believe the current presentation and disclosure requirements under U.S. GAAP provide meaningful and decision-useful financial information.

Transition and Open Effective Date Information

Questions for All Respondents

30. Should an entity be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option under the proposed requirements? If not, why?

We do not support the model proposed in the FASB ED; therefore, we have no comment on early adoption provisions.

31. Should the effective date be the same for both public entities and nonpublic entities?

No comment.
Responses to Select Questions

Questions for Preparers and Auditors
32. How much time is needed to implement the proposed guidance?

We do not support the model proposed in the FASB ED; however, we believe the effective date for any changes in the classification and measurement of financial instruments should be aligned with any changes in the Financial Instruments Impairment. Depending on the final changes required under the classification and measurement guidance, companies may need to perform detailed, individual evaluation on thousands of investments to determine whether these instruments meet the cash flow characteristics assessment under the proposed guidance. As a result, companies would need an extended amount of time to adequately prepare processes and systems for these changes at the same time many changes may be occurring as a result of any new impairment guidance that is issued. Given both of these changes would impact many of the same resources, sufficient lead time would be needed to ensure companies are prepared to implement the proposed guidance.

Given the interaction of the Financial Instrument project and the Insurance Contracts project, we recommend the FASB align the effective date of any changes from the financial instrument project with any changes that result from the Insurance Contracts project. Similarly, we believe the FASB should continue to evaluate the transition guidance for the ED as well as the interaction with the Insurance Contracts project to ensure that there is consistency between the two transition methods (as appropriate).

33. Are the transition provisions in this proposed Update operable? If not, why?

We do not support the model proposed in the FASB ED; therefore, we have no comment on the operability of transition provisions.

Equity Method Accounting
Questions for All Respondents
34. The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments – Equity Method and Joint Ventures – Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?

We are concerned with the proposed amendment that would require investments that qualify for the equity method of accounting to be measured at FV-NI if the investment is held for sale at initial recognition. The proposal in the FASB ED would eliminate today’s fair value option for equity method investments but would introduce a requirement that equity method investments held for sale be measured at FV-NI. An investor would consider its equity method investment to be held for sale if both of the following conditions are met: (1) the investor has identified potential exit strategies, even though it may not yet have determined the
Responses to Select Questions

specific method of exit; and (2) the investor has defined the time at which it expects to exit the investment, which may be either an expected date or range of dates or a time defined by specific facts or circumstances, such as achieving certain milestones or the stated investment objectives of the investor. We believe this proposal could require equity method investments with a finite life to be classified as FV-NI. Such an interpretation of “exit strategy” would cause all equity method investments to be recorded at FV-NI, as equity method investments generally have a finite life. We do not believe this was the intention of the FASB and urge the Board to consider revising the proposal or providing further guidance to remedy this unintended consequence.

Rather than implementing the complex model outlined in the FASB ED, we urge the FASB to retain the existing equity method accounting model under U.S. GAAP, as we believe the current model provides meaningful and decision-useful information.

35. The proposed amendments would change the current two-step impairment model for equity method investments to a one-step impairment model for all equity investments. Do you agree with the proposed one-step equity impairment model? If not, why? What would you propose instead?

Rather than implementing the complex model outlined in the FASB ED, we urge the FASB to retain the existing equity method accounting model under U.S. GAAP, as we believe the current model provides meaningful and decision-useful information.

36. Do you agree that the current portfolio-wide option for not-for-profit entities, other than health care entities, to account for their equity method investments at fair value should be retained? If not, why? Should that option also be made available to not-for-profit health care entities that are within the scope of Topic 954, Health Care Entities?

No comment.

Nonfinancial Hybrid Instruments

Questions for All Respondents

37. The proposed amendments would eliminate the fair value option for hybrid nonfinancial instruments in current U.S. GAAP and would provide a new fair value option for hybrid nonfinancial liabilities. For a hybrid nonfinancial liability, an entity would apply the bifurcation and separate accounting requirements in Subtopic 815-15 and account for the embedded derivative in accordance with Topic 815. The financial liability host that results from separation of the nonfinancial embedded derivative would be subject to the proposed amendments. However, an entity would be permitted to initially and subsequently measure the entire hybrid nonfinancial liability at fair value (with changes in fair value recognized in net income) if after applying Subtopic 815-15 the entity determines that an embedded derivative that requires bifurcation and separate accounting exists. In contrast, for a hybrid nonfinancial asset the proposed amendments
Responses to Select Questions

would require the hybrid contract to be measured at fair value (with changes in fair value recognized in net income) if the hybrid nonfinancial asset contains an embedded derivative that would have required bifurcation and separate accounting under Subtopic 81-15. Do you agree with the proposed amendments? If not, why? What would you propose instead?

No comment.