May 31, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116


Dear Technical Director:

We appreciate the opportunity to comment on the Exposure Draft of the Proposed Accounting Standards Update, Financial Instruments - Credit Losses (Subtopic 825-15) (the “CECL model” or “proposed ASU”). Nationwide and Subsidiaries (“Nationwide”) is comprised of three affiliated mutual insurance companies and their subsidiaries under common management, operating both property and casualty and life insurance companies. Nationwide is one of the largest diversified insurance and financial services organizations in the world with U.S. GAAP annual revenues of $23 billion and assets totaling $168 billion.

We support the Financial Accounting Standards Board’s (“FASB” or “the Board”) main objective to provide financial statement users with more decision-useful information about the expected credit losses on financial assets held by entities. We also appreciate the FASB and the International Accounting Standards Board (“the Boards”) for taking the time to reach out to financial statement preparers and financial statement users and carefully considering their concerns in an effort to develop a common set of high quality accounting standards related to credit losses. We strongly encourage the Boards to achieve convergence given an increasingly global financial marketplace. Our comments are directed towards enhancing the proposed guidance without compromising the Board’s goal to improve the timely recognition of credit losses. Additionally, our comments focus on reducing resource requirements, as well as system and process changes necessary for financial statement preparers to implement the proposed credit loss model, while providing financial statement users with the right level of information.

Below is a summary of our key concerns and suggestions:

- The requirement for a financial instrument to have both of the following conditions (1) a fair value greater than or equal to its amortized cost basis and (2) insignificant expected credit losses in order to apply the practical expedient is overly restrictive. Consequently, the practical expedient would preclude entities that hold large portfolios of high credit quality debt securities from qualifying due to non-credit related factors (e.g., liquidity and interest rates). One option we offer to the Board is to adjust the practical expedient criteria from requiring that a financial asset meet both condition one "and" two, to requiring that either condition one "or" two be met. If the Board is not receptive to this option, we recommend that the sole condition for application of the practical expedient be condition two, as it is based on significance. If condition one is removed, we believe preparers will inherently support a determination of insignificant expected credit losses by assessing whether the fair value of a financial asset is greater than its amortized cost basis.
• We agree with the requirement to use multiple scenarios to calculate expected credit losses for some financial assets. However, we believe it is inappropriate to manufacture a scenario that contains the possibility of a credit loss in order to comply with the standard when an entity has no expectation of a credit loss based on historical experience, adjusted for current conditions and reasonable and supportable forecasts. We believe this approach conflicts with the Board’s premise that an entity should accrue for its “expectation” of credit losses. However, if the Board elects to maintain this requirement in the final standard, we believe our recommendation related to the practical expedient criteria above would address our concerns.

• We appreciate that the Board did not prescribe specific methods or assumptions to be used when developing an estimate of current expected credit losses. The Board’s perspective on the use of current conditions and reasonable and supportable forecasts is clearly articulated in the recently released FAQ. We suggest the Board formalize that perspective in the implementation guidance of the final standard as it will provide clarity for preparers and their auditors when estimating expected credit losses, as well as for future reference as new preparers address these requirements. This change combined with the compromise put forward by the U.S. Banking Industry would result in a more practical principles-based approach for developing an estimate of credit losses to be recognized.

• While we acknowledge the difficulties of convergence, we believe it is imperative that the Boards achieve this goal, specifically as it relates to expected credit losses. We believe the compromise suggested by the U.S. Banking Industry provides a reasonable mechanism through which convergence can be achieved. “Rather than measuring expected credit losses over the next twelve months or over the contractual life, this compromise suggests that the Boards amend the expected credit loss measurement period to the greater of twelve months or the period that is reliably estimable and predictable.”

• To implement the proposed guidance, entities will need to develop an infrastructure capable of estimating credit losses for a much larger population of financial assets while considering a time horizon that spans over the life of the instruments. For insurance companies, implementation will be further complicated by the implications of the insurance contracts standard, as both proposed standards will have a significant impact on insurers’ assets and liabilities. Consequently, we recommend that the Board align the effective date of the proposed CECL model with the new insurance contracts guidance currently being developed for entities significantly impacted by that standard.

We expand upon our key recommendations in the following pages.


COMPREHENSIVE RECOMMENDATIONS

The Practical Expedient for Financial Assets Measured at FV-OCI

We appreciate the Board’s efforts to minimize the cost of compliance for situations where expected credit losses are insignificant by providing a practical expedient for financial assets measured at fair value through other comprehensive income ("FV-OCI") that meet both conditions prescribed in the proposed paragraph 825-15-25-2: (1) the fair value of the individual financial asset is greater than or equal to the amortized cost ("AC") basis and (2) expected credit losses on the individual asset are insignificant. However, we have two concerns with condition one. We believe that condition one is overly restrictive and will preclude entities that hold large portfolios of high credit quality debt securities from eligibility. Furthermore, the “trigger” nature of condition one appears inconsistent with the key principles within the proposed ASU, as it focuses on fair value fluctuations driven by risks unrelated to the risk of credit deterioration. To address our concerns, we propose that the Board either modify the criteria from “and” to “or,” or remove condition one. Both approaches would allow more financial assets to qualify for the practical expedient when credit losses are expected to be insignificant. For example, the fair value of a U.S. Treasury security (and other highly rated debt securities) is impacted by a variety of factors, including liquidity, interest rates and credit. Therefore, changes in a non-credit related factor, such as rising interest rates, could result in a reduction in the fair value of a high quality financial asset to below its AC, disqualifying the asset from use of the practical expedient. This is particularly problematic given the current historically low interest rate environment. In a future environment of rising interest rates, it is plausible that financial instruments purchased today at lower rates would not qualify for the practical expedient for reasons unrelated to credit.

If the Board is not receptive to changing the criteria from “and” to “or,” then we recommend the sole condition for application of the practical expedient should be condition two, as it is based on the significance of expected credit losses. Condition one is a non-credit based trigger, and it is our understanding that the Board’s intention is to move away from a trigger-based methodology. If condition one is removed, we believe preparers will inherently support a determination of insignificant expected credit losses by assessing whether the fair value of a financial asset is greater than the AC. These approaches would allow preparers to apply the practical expedient to a broader population of financial assets that, while still highly unlikely to suffer a credit-related loss, may be impacted by movements in the risk-free rate. As currently proposed, this allowance assessment would apply to high quality debt securities included in the population as a result of events that are unrelated to credit risk. Consequently, financial statement preparers would have an operationally burdensome process that would produce insignificant credit allowances and would provide little benefit to the users of the financial statements.

Credit Loss Scenarios for High Credit Quality Debt Instruments

We agree with the requirement to use multiple scenarios to calculate expected credit losses for some financial assets. However, we find it counter-intuitive to require an entity to include a credit loss scenario when it is extremely unlikely to occur. Even if a credit loss scenario is not weighted highly in an entity’s current expected credit loss estimate, the allowance derived from the calculation would not be representative of an expectation that management believes is realistic. Considering that the allowance is management’s expectation, this notion of requiring an unlikely scenario seems inappropriate. Furthermore, we do not believe this credit loss scenario would be supportable or auditable. However, if the Board includes this requirement in the final standard, we believe our recommendation related to the practical expedient criteria would address our concerns with the requirement to include a credit loss scenario by allowing preparers to apply the practical expedient to a broader population of financial assets.
Reasonable and Supportable Forecasts

We appreciate the Board’s decision not to prescribe specific methods or assumptions for management to use when developing their estimate of current expected credit losses. However, in response to the possibility that management and their auditors could develop two very different, but supportable estimates of expected credit losses, we recommend that the Board formalize their perspective on the use of reasonable and supportable forecasted information in the implementation guidance. We believe the Board’s perspective is clearly articulated in the recently released FAQ and will provide clarity for preparers and their auditors when estimating expected credit losses, as well as for future reference as new preparers address these requirements.

Convergence

We strongly encourage the Boards to achieve convergence on expected credit losses. We believe the compromise suggested by the U.S. Banking Industry provides a reasonable mechanism through which convergence can be achieved. Rather than measuring expected credit losses over the next twelve months or over the contractual life, this compromise suggests that the Boards amend the expected credit loss measurement period to the greater of twelve months or the period that is reliably estimable and predictable. Credit quality would be evaluated using credit quality indicators and product characteristics, which would not require the inclusion of a loss scenario, combined with an appropriate loss estimation period that takes into account expectations regarding current and future economic conditions. As a result, performing assets would not require immediate recognition of a less than reliable estimate of the expected lifetime of credit losses.

Operational Concerns, Disclosure Requirements and Effective Date

We have the following operational concerns regarding the costs and the level of effort required to apply the proposed CECL model to debt securities:

- The requirement to consider multiple outcomes, including at least one outcome that results in a credit loss, is a significant change to the process of recognizing credit losses on debt securities. Under current guidance, an other-than-temporary-impairment is measured on an individual security basis and considers only the best estimate of the present value of cash flows expected to be collected. Therefore, entities will be required to evaluate current, and in many cases develop new, estimation techniques in order to comply with the multiple outcomes requirement.

- Historical loss information for debt securities is not readily available for some entities. Many financial institutions have extensive historical loan loss information specific to loans they underwrite, but do not have similar historical loss information for their debt securities. Many entities will be required to develop a new process and adjust their accounting systems in order to capture historical loss data going forward with no means to generate the historical information necessary to calculate their allowance upon adoption.

Additionally, we are concerned that the increased volume of disclosures proposed would overwhelm the message of the financial statements. The inclusion of credit quality disclosures for all debt securities held will significantly add to the length of disclosures and will not provide decision-useful information to financial statement users. This is particularly the case for nonpublic entities where we believe the costs and challenges to redesign their business processes, IT systems and internal controls to capture information for these disclosures will outweigh the potential benefit to financial statement users.

As outlined above, the exposed guidance will have significant operational impacts. This is especially true for insurance companies given the size of their investment portfolios and the implications of the revisions to the insurance contracts guidance. We believe the effective dates for the financial instruments and insurance contracts projects should be aligned in order to ensure the ability to coordinate system adjustments, asset-liability
management decisions and reporting impacts for entities significantly impacted by those proposals. While we are suggesting a lengthier implementation period, we are not suggesting a specific date at this time. We would like to evaluate the insurance contracts guidance currently being developed prior to proposing an effective date.

CONCLUSION

As mentioned above, we support the FASB’s main objective to provide financial statement users with decision-useful information about the expected credit losses on financial assets. We also believe our recommendations discussed above would further improve the proposed CECL model and are consistent with the Board’s main objective. Additionally, our recommendations would reduce significant challenges entities would face in developing and implementing the infrastructure needed to apply the proposed guidance. Furthermore, we strongly encourage the Boards to achieve convergence given an increasingly global financial marketplace, in which market participants, users and regulators all recognize the need for a common set of high quality accounting standards related to credit losses on financial instruments.

Nationwide’s response to the comprehensive list of questions is attached as an appendix to this letter.

We hope these comments assist you during your re-deliberations of the proposed guidance. In the event that any Board or FASB staff member would like further clarification of our positions, we would be happy to discuss them in greater detail.

Respectfully,

James D. Benson
Senior Vice President, Enterprise Controller and Chief Accounting Officer
Nationwide and Subsidiaries
APPENDIX

Scope

Question for All Respondents

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

No. We believe that reinsurance receivables should remain within the scope of ASC 944, Accounting and Reporting by Insurance Enterprises (“ASC 944”), which is consistent with the International Accounting Standards Board’s decision to subject reinsurance receivables to insurance accounting. This would still result in an expected value measurement without an allowance, when the reinsurer is either (1) a highly rated entity that does not have a history of defaulting on their liabilities or (2) provides collateral for the receivable. Furthermore, required disclosure information related to reinsurance receivables currently exists in ASC 944 and disclosures proposed in the CECL model would be duplicative. We do not believe this would provide decision-useful information to financial statement users and would be cumbersome for financial statement preparers.

Although the proposed guidance does not explicitly address policy loans issued by an insurance company that use the policyholders’ insurance policies as collateral or insurance receivables (e.g., premiums in course of collection, deductible and subrogation recoverables), we believe it is appropriate for these policy-related assets to remain under the scope of ASU 944, and we request the Board to explicitly confirm our interpretation that they are not within the scope of the CECL model.

It is also our view that intercompany receivables and related party transactions would not require an allowance when reported in subsidiary level stand-alone financial statements. We request that the Board clarify the reporting requirements for subsidiary level stand-alone financial statements.

Recognition and Measurement

Questions for Users ---- (Questions 2-8) → N/A. We do not have a view on these proposed amendments.

Questions for Preparers and Auditors

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets’ remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

Yes. Although the Board’s perspective on the use of current conditions and reasonable and supportable forecasted information is clearly articulated in the recently released FAQ, it is not currently reflected in the proposed ASU. We recommend that the Board formalize their perspective in the implementation guidance of the final standard as it will provide clarity for preparers when estimating expected credit losses, as well as for future reference as new preparers address these requirements. This guidance would clarify for both preparers and auditors that the forecasts incorporated in the expected credit loss estimates include facts and circumstances as well as management’s judgment.

Furthermore, we strongly encourage the Boards to achieve convergence on expected credit losses. We believe the compromise suggested by the U.S. Banking Industry provides a reasonable mechanism through which convergence can be achieved. Rather than measuring expected credit losses over the next twelve months or over the contractual life, this compromise suggests that the Boards amend the expected credit loss measurement period
to the greater of twelve months or the period that is reliably estimable and predictable. Credit quality would be evaluated using credit quality indicators and product characteristics, which would not require the inclusion of a loss scenario, combined with an appropriate loss estimation period that takes into account expectations regarding current and future economic conditions. As a result, performing assets would not require immediate recognition of a less than reliable estimate of the expected lifetime of credit losses.

Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

Yes. We have access to the historical data, and we expect to use the data as described in the proposed guidance. However, historical loss information for debt securities is not readily available for some entities. Many financial institutions have extensive historical loan loss information specific to loans they underwrite, but do not have similar historical loss information for their debt securities. Regardless of the availability of the data, all entities would have to develop a new process and adjust their accounting systems in order to capture historical loss data going forward. Furthermore, some entities may have no means to generate the historical information necessary to apply the proposed model upon adoption and may have to obtain historical default studies produced by third-parties. On behalf of these entities, we ask the Board to consider the additional costs, resources and time they will need to implement the proposal when finalizing the CECL model’s transition and effective date.

Question 11: The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

Yes. Although we agree with the requirement to use multiple scenarios to calculate expected credit losses for some financial assets, we find it counter-intuitive to require an entity to include a credit loss scenario when it is extremely unlikely to occur (e.g., high credit quality debt securities and financial assets fully backed by collateral). Even if a credit loss scenario is not weighted highly in an entity’s current expected credit loss estimate, the allowance derived from the calculation would not be representative of an expectation that management believes is realistic. Considering that the allowance is management’s expectation, this notion of requiring an unlikely scenario seems inappropriate. Furthermore, we do not believe this credit loss scenario would be supportable or auditable. However, if the Board includes this requirement in the final standard, we believe our recommendation related to the practical expedient criteria (discussed in question 14) would address our concerns with the requirement to include a credit loss scenario by allowing preparers to apply the practical expedient to a broader population of financial assets.

In addition to our conceptual concern, we believe the requirement to consider multiple outcomes is a significant change for recognizing credit losses on debt securities; therefore, we have operability concerns. Under current guidance, an other-than-temporary-impairment is measured on an individual security basis and considers only the best estimate of the present value of forecasted cash flows expected to be collected. Therefore, entities would
need sufficient time to evaluate, and perhaps develop new, estimation techniques in order to comply with the multiple outcomes requirement.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

We do not anticipate any significant operability or auditing concerns or constraints. We also agree that the allowance for expected credit losses should reflect the time value of money.

Question 13: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management’s current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

No. We do not have any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition. However, we do believe that the proposed amendment would require entities to design and test new processes and controls, which would require additional resources, time and costs for implementation.

Question 14: As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

Yes. We appreciate the Board’s efforts to minimize the cost of compliance for situations where expected credit losses are insignificant by providing a practical expedient for financial assets measured at FV-OCI that meet both conditions prescribed in the proposed paragraph 825-15-25-2: (1) the fair value of the individual financial asset is greater than or equal to the AC basis and (2) expected credit losses on the individual asset are insignificant. However, we have two concerns with condition one. We believe that condition one is overly restrictive and will preclude entities that hold large portfolios of high credit quality debt securities from eligibility. Furthermore, the “trigger” nature of condition one appears inconsistent with the key principles within the proposed ASU, as it focuses on fair value fluctuations driven by risks unrelated to the risk of credit deterioration. To address our concerns, we propose that the Board either modify the criteria from “and” to “or,” or remove condition one.
Both approaches would allow more financial assets to qualify for the practical expedient when credit losses are expected to be insignificant. For example, the fair value of a U.S. Treasury security (and other highly rated debt securities) is impacted by a variety of factors, including liquidity, interest rates and credit. Therefore, changes in a non-credit related factor, such as rising interest rates, could result in a reduction in the fair value of a high quality financial asset to below its AC, disqualifying the asset from use of the practical expedient. This is particularly problematic given the current historically low interest rate environment. In a future environment of rising interest rates, it is plausible that financial instruments purchased today at lower rates would not qualify for the practical expedient for reasons unrelated to credit.

If the Board is not receptive to changing the criteria from “and” to “or,” then we recommend the sole condition for application of the practical expedient should be condition two, as it is based on the significance of expected credit losses. Condition one is a non-credit based trigger, and it is our understanding that the Board’s intention is to move away from a trigger-based methodology. If condition one is removed, we believe preparers will inherently support a determination of insignificant expected credit losses by assessing whether the fair value of a financial asset is greater than the AC. These approaches would allow preparers to apply the practical expedient to a broader population of financial assets that, while still highly unlikely to suffer a credit-related loss, may be impacted by movements in the risk-free rate. As currently proposed, this allowance assessment would apply to high quality debt securities included in the population as a result of events that are unrelated to credit risk. Consequently, financial statement preparers would have an operationally burdensome process that would produce insignificant credit allowances and would provide little benefit to the users of the financial statements.

Question 15: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

No. We do not have any significant operability or auditing concerns or foresee any constraints with this proposed amendment.

Questions for All Respondents

Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45–BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor’s effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?

Yes. We support the distinction made between troubled debt restructurings and nontroubled debt restructurings and do not have any significant operability or audit concerns or foresee any constraints with this proposed amendment.

Disclosures

Questions for Users ---- (Question 17) → N/A. We do not have a view.

Questions for Preparers and Auditors
Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

Yes. We have concerns over the increased volume of disclosures. We believe that the voluminous disclosures required by this proposal overwhelm the message of the financial statements. We strongly feel that any proposed disclosures should be contemplated in association with the FASB Disclosure Framework project. We appreciate the Board’s explicit acknowledgement in paragraph 825-15-50-3 that an entity must strike a balance between obscuring important information through too much aggregation and overburdening the financial statements with excessive detail.

We believe the proposed credit quality disclosures for all debt instruments and proposed rollfowards for debt instruments classified at AC and FV-OCI will overburden the financial statements with excessive detail. Furthermore, because a significant portion of our investment portfolio is very high quality debt instruments, without a less restrictive practical expedient, the costs of preparing and supporting the proposed disclosures will outweigh the benefit to the users of our financial statements.

Implementation Guidance and Illustrations

Questions for All Respondents

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

Yes. We appreciate that the Board did not prescribe specific methods or assumptions to be used when developing an estimate of current expected credit losses. The Board’s perspective on the use of current conditions and reasonable and supportable forecasts is clearly articulated in the recently released FAQ. We suggest the Board formalize that perspective in the implementation guidance of the final standard as it will provide clarity for preparers and their auditors when estimating expected credit losses, as well as for future reference as new preparers address these requirements.

Transition and Effective Date
Questions for All Respondents

Question 20: Do you agree with the transition provision in this proposed Update? If not, why?

Yes. We believe, however, it is critical that the effective dates of all accounting changes affecting an insurance company’s asset-liability management strategy (e.g., all of the aspects of the financial instruments guidance as well as the impending insurance contracts guidance) should be aligned in order to ensure system adjustments, asset-liability management decisions and reporting impacts are appropriately coordinated. The alignment of effective dates is necessary to avoid confusion on the part of the financial statement users given that the two standards are so closely linked.

Question 21: Do you agree that early adoption should not be permitted? If not, why?

Yes. We agree that early adoption should not be permitted.

Question 22: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

Yes. We have concerns over the increased volume of disclosures. We believe that the voluminous disclosures required by this proposal overwhelm the message of the financial statements. We strongly feel that any proposed disclosures should be contemplated in association with the FASB Disclosure Framework project. We appreciate the Board’s explicit acknowledgement in paragraph 825-15-50-3 that an entity must strike a balance between obscuring important information through too much aggregation and overburdening the financial statements with excessive detail.

We believe the proposed credit quality disclosures for all debt instruments and proposed rollfowards for debt instruments classified at AC and FV-OCI will overburden the financial statements with excessive detail. Furthermore, because a significant portion of our investment portfolio is very high quality debt instruments, without a less restrictive practical expedient, the costs of preparing and supporting the proposed disclosures will outweigh the benefit to the users of our financial statements.

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Yes. We appreciate that the Board did not prescribe specific methods or assumptions to be used when developing an estimate of current expected credit losses. The Board’s perspective on the use of current conditions and reasonable and supportable forecasts is clearly articulated in the recently released FAQ. We suggest the Board formalize that perspective in the implementation guidance of the final standard as it will provide clarity for preparers and their auditors when estimating expected credit losses, as well as for future reference as new preparers address these requirements.

Transition and Effective Date
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Question 20: Do you agree with the transition provision in this proposed Update? If not, why?

Yes. We believe, however, it is critical that the effective dates of all accounting changes affecting an insurance company’s asset-liability management strategy (e.g., all of the aspects of the financial instruments guidance as well as the impending insurance contracts guidance) should be aligned in order to ensure system adjustments, asset-liability management decisions and reporting impacts are appropriately coordinated. The alignment of effective dates is necessary to avoid confusion on the part of the financial statement users given that the two standards are so closely linked.

Question 21: Do you agree that early adoption should not be permitted? If not, why?

Yes. We agree that early adoption should not be permitted.

Question 22: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?
Nonpublic entities will need additional time and resources to carefully assess their business processes, IT systems and internal controls to capture the proposed disclosure information. In regards to the Board’s proposed credit quality disclosures for all debt instruments, we believe most users of a nonpublic entity’s financial statements (e.g., their Board of Directors) have access to the information. As such, we recommend providing nonpublic companies with at least a one year delayed effective date, as well as eliminating (or reducing) the credit quality disclosure requirement for their debt instruments.

Questions for Preparers and Auditors

Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

Yes. However, the Board should allow entities that will be significantly impacted by the insurance contracts and the financial instruments projects to have aligned effective dates. This will allow insurance companies sufficient time to implement new accounting standards on classification and measurement of financial instruments, expected credit losses and insurance contracts, all of which are fundamental to their financial statements. A coordinated effective date will also minimize confusion to their financial statement users.

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

Extensive system and process changes would be needed to implement the proposed ASU and would require a considerable amount of lead time. Entities would need to develop the infrastructure to estimate losses for a larger population of financial assets while considering a longer time horizon (i.e., all contractual cash flows). We believe it could take most companies at least two years to implement the proposed CECL model and classification and measurement guidance. However, given the operational impacts and unforeseen transition issues the proposed standards would have on insurers, we respectfully request the opportunity to evaluate the proposed ASU on insurance contracts prior to proposing an effective date. We believe it is critical that the effective dates of all accounting changes affecting an insurance company’s asset-liability management strategy (e.g., all of the aspects of the financial instruments guidance as well as the impending insurance contracts guidance) should be aligned in order to ensure system adjustments, asset-liability management decisions and reporting impacts are appropriately coordinated. The alignment of the effective dates is necessary to avoid confusion on the part of the financial statement users given that the two standards are so closely linked.