May 31, 2013

Technical Director
File Reference No. 2012-260
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Financial Accounting Standards Board:

Protective Life Corporation (the “Company” or “Protective”) appreciates the opportunity to comment on the “Financial Instruments-Credit Losses (Subtopic 825-15) - Exposure Draft” (“ED”) issued December 20, 2012. Protective, through its subsidiaries, is a group of domestic insurance companies that market retirement savings, investment, and asset protection products such as life insurance, annuities, guaranteed investment contracts, funding agreements, credit insurance and extended service contracts.

The stated goal of the proposed guidance is to provide users of financial statements with more decision-useful information about the expected credit losses on financial assets. The Board seeks to achieve this objective by replacing the current impairment model, which reflects incurred credit events, with a model that recognizes expected credit risks by requiring consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We believe this proposed impairment standard is an improvement from prior exposure drafts; however, there are some areas of concern which we will discuss in our letter.

We discuss some specific concerns below, and have included an Appendix section where we address some of the questions noted in the proposal.

Specific Concerns

Scope

The current scope of the proposal includes some financial assets that should be excluded, including:

Reinsurance Receivables – Reinsurance receivables represent all amounts recoverable from reinsurers, including paid and unpaid claims as well as estimated amounts receivable for unsettled claims, claims incurred but not reported and policy benefits. These recoverable amounts are interconnected with losses being projected in the insurance contracts liability. Therefore, reinsurance receivables should remain within the scope of ASC 944, and be addressed in the Insurance Contracts project. In addition, the International
Accounting Standard Board (IASB) has tentatively decided to subject reinsurance receivables to insurance accounting, and we believe the FASB should join the IASB in this decision.

**FV-OCI Financial Assets** – One of the main drivers, noted by the Board, of the updated impairment guidance was to address the overstatement of assets caused by a delayed recognition of credit losses associated with financial instruments. This was not an issue for assets reported at fair value where the difference between original purchase price and current value is recognized in earnings or in other comprehensive income. These assets are not overstated as market value typically includes a discount for expected losses; therefore, we encourage the Board to scope out FV-OCI financial assets from the proposal. For insurance entities, debt securities measured under FV-OCI would be significantly impacted by this proposal. A further valuation allowance is not necessary for these financial assets, which are already stated at fair value on the balance sheet. Additionally, we note the Board has previously made improvements to the debt securities impairment model through FSP FAS 115-2 and FAS 124-2. These improvements have worked well in practice and we encourage the Board to consider continuing the current model for debt securities.

**Use of best estimate not allowed**

The proposal requires an estimate of expected credit losses should always reflect both the possibility that a credit loss results and the possibility that no credit loss occurs. This requirement would result in an allowance for expected credit losses to be recognized for virtually all assets (or portfolios of assets). Therefore, the proposed standard would require that high credit quality and government securities, where there is minimal or no expectation of a credit loss, recognize an allowance due to the possibility of loss. Conversely, when there has been a previous default on a security, the proposal would require an entity to factor in the possibility that there will be no loss. This could result in losses less than would be expected under current US GAAP. The aforementioned examples illustrate situations in which consideration of a credit loss and no credit loss does not provide the most accurate impairment amount. Requiring two scenarios adds complexity and work with the potential of less accuracy of credit losses reported in the financial statements. The use of best estimate has been applied in the U.S. for years and is easier to apply than the proposed two scenario minimum. Best estimate is also well understood by financial statement users and promotes comparability among financial statement reporters. Therefore, we believe management’s best estimate would provide the most meaningful impairment information to the users of the financial statements.

**FV-OCI practical expedient**

The proposal includes a practical expedient allowing an entity to elect not to recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income if both of the following conditions are met:

a) The fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset.

b) Expected credit losses on the individual financial asset are insignificant, which may be determined by considering the general expectation of the range of expected credit losses given the credit-quality indicator(s) for the asset as of the reporting date.

If FV-OCI assets are not excluded from the scope of this proposal, we encourage the Board to consider updating the practical expedient criteria to an entity meeting (a) or (b), instead of both (a) and (b). As the practical expedient is currently written, many assets would not meet the criteria in a rising interest rate environment. An example of this would be a portfolio of United States Treasuries, which could move to a loss position with an interest rate shift, yet have no real significant credit loss. Updating the criteria will result in a more accurate computation of an entity’s credit loss.
Historical loss experience

The proposal requires the estimate of expected credit losses to be based on relevant information about past events, including historical loss experience. Currently we do not have extensive historical loss information data readily available in our accounting systems. We would therefore be forced to rely on industry data of similar assets which may not be a good reflection of our specific experience. Also, there is some uncertainty of what industry data should be relied on.

The proposal does not provide implementation guidance on how to assess and incorporate historical loss experience into the impairment calculation. For example, how far would an entity be expected to track a debt security: Up to the point of sale? Throughout the life of the security, even after the security is sold? Because we generally manage our portfolios and sell based on expectations, historical loss rates may not be indicative of the future performance of our securities. Specific implementation guidance will be necessary to ensure operability and comparability if the Board decides to adopt this model.

Reasonable and supportable forecast/Increased disclosure requirements

The proposal requires the expected credit losses to be based on reasonable and supportable forecasts. This requirement is very subjective and could result in varying conclusions among similar companies in a shared industry. This is due to the fact that at any point in time there are multiple opinions on economic forecast and modeling. Companies will need to explain these reasonable and supportable forecasts through added disclosures, which will add to the complexity and volume of our financial statements. Additionally, these forecasts will need to be auditable which could be a concern with the potential variability in results as discussed above. We are also concerned about the extent to which management’s judgments will be required to be disclosed in footnotes that are not protected by Safe Harbor rules. We believe these management judgments would be better reported in Management’s Discussion & Analysis.

Effective Date

We encourage the Board to align the effective dates for the Financial Instruments and Insurance Contracts projects for insurers. It is important for insurers and other impacted companies to have an appropriate amount of time and opportunity to assess the full impact of these interrelated projects. If the Board proceeds with the Financial Instrument project without regard to the Insurance Contracts project, we believe a minimum of two years will be needed to implement this proposal.

The following Appendix provides answers to selected exposure draft questions. We appreciate the opportunity to comment on the proposed standard. If you have any questions regarding this letter or wish to discuss further, please contact me at (205) 268-6775 or Charles Evers, Vice President, Corporate Accounting (responsible for accounting policy matters) at (205) 268-3596.

Sincerely,

Steven G. Walker
Senior Vice President, Controller and
   Chief Accounting Officer
Protective Life Corporation
APPENDIX - QUESTIONS FOR RESPONDENTS

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, the current scope of the proposal includes some financial assets that should be excluded, as noted below:

Reinsurance Receivables - Reinsurance receivables represent all amounts recoverable from reinsurers, including paid and unpaid claims as well as estimated amounts receivable for unsettled claims, claims incurred but not reported and policy benefits. These recoverable amounts are interconnected with losses being projected in the insurance contracts liability. Therefore, reinsurance receivables should remain within the scope of ASC 944, and be addressed in the Insurance Contracts project. In addition, the International Accounting Standard Board (IASB) has tentatively decided to subject reinsurance receivables to insurance accounting, and we believe the FASB should join the IASB in this decision.

FV-OCI Financial Assets - One of the main drivers, noted by the Board, of the updated impairment guidance was to address the overstatement of assets caused by a delayed recognition of credit losses associated with financial instruments. This was not an issue for assets reported at fair value where the difference between original purchase price and current value is recognized in earnings or in other comprehensive income. These assets are not overstated as market value typically includes a discount for expected losses; therefore, we encourage the Board to scope out FV-OCI financial assets from the proposal. For insurance entities, debt securities measured under FV-OCI would be significantly impacted by this proposal. A further valuation allowance is not necessary for these financial assets, which are already stated at fair value on the balance sheet. Additionally, we note the Board has previously made improvements to the debt securities impairment model through FSP FAS 115-2 and FAS 124-2. These improvements have worked well in practice and we encourage the Board to consider continuing the current model for debt securities.

Recognition and Measurement

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 collectability 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, we foresee significant operational, comparability, and auditability concerns as noted below.

The proposal requires the estimate of expected credit losses to be based on relevant information about past events, including historical loss experience. Currently we do not have extensive historical loss information data readily available in our accounting systems. We would therefore be forced to rely on industry data of similar assets which may not be a good reflection of our specific experience. Also, there is some uncertainty of what industry data should be relied on.

The proposal does not provide implementation guidance on how to assess and incorporate historical loss experience into the impairment calculation. For example, how far would an entity be expected to
track a debt security: Up to the point of sale? Throughout the life of the security, even after the security is sold? Because we generally manage our portfolios and sell based on expectations, historical loss rates may not be indicative of the future performance of our securities. Specific implementation guidance will be necessary to ensure operability and comparability if the Board decides to adopt this model.

Regarding the use of reasonable and supportable forecasts, this requirement is very subjective and could result in varying conclusions among similar companies in a shared industry. This is due to the fact that at any point in time there are multiple opinions on economic forecast and modeling. Companies will need to explain these reasonable and supportable forecasts through added disclosures, which will add to the complexity and volume of our financial statements. Additionally, these forecasts will need to be auditable which could be a concern with the potential variability in results as discussed above.

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?

As mentioned in our response to question 9 above, we have several issues with the use of historical loss data and the incorporation of reasonable and supportable forecast.

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?

The proposal requires an estimate of expected credit losses should always reflect both the possibility that a credit loss occurs and the possibility that no credit loss occurs. This requirement would result in an allowance for expected credit losses to be recognized for virtually all assets (or portfolio of assets). Therefore, the proposed standard would require that high credit quality and government securities, where there is minimal or no expectation of a credit loss, recognize an allowance due to the possibility of loss. Conversely, when there has been a previous default on a security, the proposal would require an entity to factor in the possibility that there will be no loss. This could result in losses less than would be expected under current US GAAP. The aforementioned examples illustrate situations in which consideration of a credit loss and no credit loss does not provide the most accurate impairment amount. Requiring two scenarios adds complexity and work with the potential of less accuracy of credit losses reported in the financial statements. The use of best estimate has been applied in the U.S. for years and is easier to apply than the proposed two scenario minimum. Best estimate is also well understood by financial statement users and promotes comparability among financial statement reporters. Therefore, we believe management’s best estimate would provide the most meaningful impairment information to the users of the financial statements.

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?

No we do not foresee any significant operational concerns with the requirement of the credit loss impairment model to reflect the time value of money.

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?

As noted earlier in our letter, we believe the practical expedient criteria should be updated to an entity meeting (a) or (b), instead of both (a) and (b). As the practical expedient is currently written, many assets would not meet the criteria in a rising interest rate environment. An example of this would be a portfolio of United States Treasuries, which could move to a loss position with an interest rate shift, yet have no real significant credit loss. Updating the criteria will result in a more accurate computation of an entity’s credit loss.

Disclosures

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 do foresee significant operational and auditing concerns as noted below.

In a recent Protective Board of Directors meeting, a Board member made a comment regarding the increasing volume of our financial statements. With an impairment model that includes forecasted expectations; our financial statements will further increase in volume and complexity. In addition, audit firms will be required to audit disclosures that are heavily subjective and could vary from comparable companies. We are also concerned about the extent to which management’s judgments will be required to be disclosed in footnotes that are not protected by Safe Harbor rules. We believe these management judgments would be better reported in Management’s Discussion & Analysis.

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?

No, we feel there are some areas which need increased implementation guidance and illustrative examples. The proposal does not provide implementation guidance on how to assess and incorporate historical loss
experience into the impairment calculation. For example, how far would an entity be expected to track a debt security: Up to the point of sale? Throughout the life of the security, even after the security is sold? Because we generally manage our portfolios and sell based on expectations, historical loss rates may not be indicative of the future performance of our securities. Specific implementation guidance will be necessary to ensure operability and comparability if the Board decides to adopt this model. Also, with the requirement for entities to factor in forecasted expectations more implementation guidance is necessary to ensure comparability.

Transition and Effective Date

Questions for All Respondents

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

We agree with the transition provision if FV-OCI financial assets are scoped out of the proposal. Otherwise, we have operational concerns, as discussed in question 23 below.

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

Yes, we agree early adoption should not be permitted.

Questions for Preparers and Auditors

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

No. Our concern is specific to debt securities, especially for structured securities. The cumulative adjustment for these securities could only be accurately calculated for certain security types by determining credit losses taken to date on the current portfolio, reversing out those previously taken credit losses, calculating the original expected credit losses under the guidance, updating the original cost for principal payments to get an unimpaired amortized cost, and booking the difference between the original expectation and the current expectation to retained earnings, setting up the remainder of current expected losses as the allowance. There is currently no automated way to calculate such reversals, resulting in this process being performed manually. This will result in significant time and resources being allocated to compute the adjustment necessary.

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?

This proposal would require significant system and process changes. One of the most drastic changes necessary would be the development and tracking of historical loss data for each asset type. Other areas of change would be updating systems and processes to implement potential new units of measurement, as well as implementing the practical expedient.

The complexity to implement this proposed standard, along with the related Recognition and Measurement standard, will be significant. We encourage the FASB to align the effective dates for the Financial Instruments and Insurance Contracts projects for insurers. It is important for insurers and other impacted companies to have an appropriate amount of time and opportunity to assess the full impact of these interrelated projects. If the Board proceeds with the Financial Instrument project without regard to the Insurance Contracts project, we believe a minimum of two years will be needed to implement this proposal.