May 31, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2012-260

Dear Technical Director,

CNA Financial Corporation (referred to in this letter as CNA, we, our, and us) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (FASB or the Board) Financial Instruments – Credit Losses Exposure Draft (ED). CNA is the seventh largest commercial insurance writer and the thirteenth largest property and casualty writer in the United States.

At March 31, 2013, CNA’s investment portfolio totaled $48 billion with 90% invested in debt securities classified as available for sale (AFS) which are measured at fair value, with changes in fair value recognized in other comprehensive income. Under the FASB’s currently proposed Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities Exposure Draft (2013 R&M ED), we believe the majority of our AFS debt securities should be classified and measured at Fair Value through Other Comprehensive Income (FV-OCI). Throughout the remainder of this letter we use the term FV-OCI to refer to both AFS securities under the existing model as well as FV-OCI assets under the model proposed in the 2013 R&M ED. CNA submitted a separate comment letter on the 2013 R&M ED.

Modified Scope

Debt Securities:

We understand the Board’s desire to develop a single impairment model for all financial instruments and recognize the inherent difficulties in doing so. Notwithstanding that goal, we do not believe debt securities effectively fit into the proposed model. We outline the basis for this conclusion in further detail below.

1. We believe the current impairment model for debt securities is effective and provides financial statement users with decision-useful information. It is our view that the operational challenges and associated cost related to implementing and operating under the new model for these financial instruments outweighs the benefits.

   - The prevailing portfolio management approach for debt securities classified and measured at FV-OCI is to sell securities when management believes there are elevated issuer or collateral credit concerns well before an actual credit default. As a result, the requirement under the current impairment model to record an other-than-temporary impairment (OTTI) loss equal to the difference between amortized cost and fair value for securities we intend to sell provides more decision-useful information regarding the expected loss. The proposed model does not improve reporting for this very common circumstance.

   - Recognizing an allowance based on relevant information about reasonable and supportable forecasts will be inherently more difficult because forecasts will need to be developed at a macro level as opposed to at the individual security level. Entities will incur costs to develop these forecasts, there will be limited
comparability across entities, and there will be increased audit costs related to the level of judgment inherent in the forecasts.

- The insurance industry's accounting and reporting systems are currently configured to record impairment as a direct adjustment to the amortized cost of individual securities; we do not create an allowance for debt securities at an aggregate level. We will likely need to maintain our current process for statutory reporting, which closely mirrors the current model, and for other internal reporting and analysis purposes. To implement the proposed guidance, we will incur costs to change our systems to accommodate an allowance for expected credit losses in addition to recording impairment as a direct adjustment to the amortized cost of individual securities.

2. The application of the proposed model for debt securities classified and measured at FV-OCI contradicts: 1) the business model for which the objective is both to hold assets to collect contractual cash flows and to sell assets and 2) the concept of fair value accounting. It is our assessment that requiring the proposed model for debt securities will reduce investor understanding and usability of this important information.

- Under the proposed model, an entity could be required to record a credit loss allowance on FV-OCI financial instruments with a fair value greater than cost. We believe this is contradictory to the FV-OCI classification and measurement category, as the instrument may otherwise be sold at a gain.

- Under the proposed model, if an entity intends to sell an instrument classified and measured at FV-OCI when fair value is less than cost and only recognizes a loss equal to the expected credit losses, the financial impact of the decision to sell is not appropriately presented in the net income in the period of the change of intent. The net income in the period of the change of intent will not reflect the ultimate loss expected to be recognized when the asset is sold. This would appear contradictory to one of the primary objectives of the guidance, which is to allow for earlier recognition of a loss. If an entity intends to sell an instrument classified and measured at FV-OCI or Amortized Cost (AC) \(^1\), we believe it should recognize the loss it will ultimately realize, which is equal to the difference between fair value and amortized cost. Requiring recognition of a loss equal to the difference between fair value and amortized cost when an entity intends to sell a financial asset classified and measured at FV-OCI would be consistent with the accounting treatment the Board is proposing in the 2013 R&M ED for assets recognized and measured at AC when the decision is made to sell the asset.

Potential Modifications to Proposed Model - Should the Board pursue the proposed model with the scope as currently defined, we identified a number of modifications that would partially mitigate our concerns.

**Recognition:** We believe for debt securities, entities should be allowed to recognize expected credit losses as a direct adjustment to the amortized cost of individual securities, rather than as an allowance. Doing so would not detract from the usefulness of the information presented to investors. Recognizing credit losses as an adjustment to amortized cost rather than as an allowance would reduce the required level of investment system changes.

Notwithstanding our previous comments regarding the operational challenges and costs associated with implementing the proposed model, we believe an allowance could be recorded for FV-OCI instruments in an unrealized loss position after all incurred specific credit losses have been recognized at the individual security level, if the expected credit losses are not insignificant. This allowance would be established using the entity's forecast of expected credit losses based on the characteristics of that underlying pool of assets. Again, we believe it would be contradictory to the FV-OCI classification to record an allowance on securities in an unrealized gain position, but doing so on securities in an unrealized loss position after recording all incurred credit losses, if the expected credit losses are not insignificant, would be consistent with and allow for earlier recognition of expected credit losses.

**Measurement:** In order to acknowledge the "distinct business model" concept contemplated in the 2013 R&M ED, when financial assets are managed within a business model that has the objective of both holding financial assets to collect contractual cash flows and selling financial assets, and are classified and measured at FV-OCI, we believe:

- An entity should be required to recognize an impairment equal to the difference between amortized cost and the expected proceeds from the sale of the asset when it intends to sell a financial asset, regardless of whether it is classified and measured at AC or FV-OCI. As noted above, requiring recognition of a loss equal to the difference between fair value and amortized cost when an entity intends to sell a financial asset classified and measured at

\(^1\) Our reference to Amortized Cost includes both the proposed Amortized Cost classification and measurement category under the 2013 R&M ED and the Held-to-Maturity category under current U.S. GAAP.
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FV-OCI would be consistent with the accounting treatment the Board is proposing in the 2013 R&M ED for assets recognized and measured at AC when the decision is made to sell the asset.

Practical Expedient: We appreciate the Board’s development of a practical expedient in the application of the proposed expected credit loss model. As currently drafted, however, we anticipate difficulties in applying this in practice.

We believe the practical expedient should be revised to eliminate the requirement to meet both of the following conditions: (1) The fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset; and (2) 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. As the guidance is currently proposed, an allowance for expected credit loss may be required in instances where the fair value is less than cost, solely due to changes in interest rates, and is independent of the credit quality of the instrument. The practical expedient should be available for election if either condition is met. This change will partially mitigate our operational concerns.

Time Value of Money: We do not believe the allowance for expected credit losses should be required to reflect the time value of money for reinsurance receivables unless the related reinsurance receivables are discounted (as currently tentatively voted on by the FASB and the IASB as part of the joint project on Insurance Contracts). This would avoid a mismatch of the measurement basis between the receivable and the allowance for the receivable.

Presentation and Disclosure: As we discuss above, we believe for debt securities, entities should be allowed to recognize expected credit losses as a direct adjustment to the amortized cost of individual securities, rather than as an allowance.

Additionally, we do not believe disclosing a roll forward of the amortized cost of an entity’s debt instruments classified and measured at FV-OCI provides incremental value to our existing disclosures. For financial statement users, the most important components of this roll forward are already provided in our investment and fair value disclosures.

The remainder of this letter addresses the specific questions applicable to CNA contained in the ED and further elaborates on our conclusions.

If you have any questions, please feel free to call me at 312-822-5653.

Sincerely,

Lawrence J. Boysen
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?

**Response 1:** As discussed in the cover letter, we believe debt securities should be excluded from the scope of the proposed model. We do not believe debt securities effectively fit into the proposed model.

1. We believe the current impairment model for debt securities is effective and provides financial statement users with decision-useful information. It is our view that the operational challenges and associated cost related to implementing and operating under the new model for these financial instruments outweighs the benefits.

   - The prevailing portfolio management approach for debt securities classified and measured at FV-OCI is to sell securities when management believes there are elevated issuer or collateral credit concerns well before an actual credit default. As a result, the requirement under the current impairment model to record an other-than-temporary impairment (OTTI) loss equal to the difference between amortized cost and fair value for securities we intend to sell provides more decision-useful information regarding the expected loss. The proposed model does not improve reporting for this very common circumstance.

   - The benefits of the proposed model appear quite limited for debt securities classified and measured at FV-OCI because changes in the allowance in periods subsequent to initial recognition would be similar under both the proposed expected credit loss model and the existing OTTI model. Under both models, as specific securities deteriorate in credit quality, entities will perform an analysis to measure and recognize the allowance for each specific security.

   - The primary impact of the proposed model is to record an allowance for expected credit losses across the investment portfolio, which is not a requirement in the current model. The nature of the allowance, in that it incorporates macro level future forecasts, means that in periods of broader economic stress, we would expect that changes in the allowance under both models would be comparable.

   - Recognizing an allowance based on relevant information about reasonable and supportable forecasts will be inherently more difficult because forecasts will need to be developed at a macro level as opposed to at the individual security level. Entities will incur costs to develop these forecasts, there will be limited comparability across entities, and there will be increased audit costs related to the level of judgment inherent in the forecasts.

   - The insurance industry’s accounting and reporting systems are currently configured to record impairment as a direct adjustment to the amortized cost of individual securities; we do not create an allowance for debt securities at an aggregate level. We will likely need to maintain our current process for statutory reporting, which closely mirrors the current model, and other internal reporting and analysis purposes. To implement the proposed guidance, we will incur costs to change our systems to accommodate an allowance for expected credit losses in addition to recording impairment as a direct adjustment to the amortized cost of individual securities.

2. The application of the proposed model to debt securities classified and measured at FV-OCI contradicts: 1) the business model for which the objective is both to hold assets to collect contractual cash flows and to sell assets and 2) the concept of fair value accounting. It is our assessment that requiring the proposed model for debt securities will reduce investor understanding and usability of this important information.

   - Under the proposed model, an entity could be required to record a credit loss allowance on FV-OCI financial instruments with a fair value greater than cost. We believe this is contradictory to the FV-OCI classification and measurement category, as the instrument may be sold at a gain.

   - Under the proposed model, if an entity intends to sell an instrument classified and measured at FV-OCI when fair value is less than cost and only recognizes a loss equal to the expected credit losses, the financial impact of the decision to sell is not appropriately presented in the net income in the period of the change of intent. The net income in the period of the change of intent will not reflect the ultimate loss expected to be recognized when the asset is sold. This would appear contradictory to one of the primary objectives of the guidance, which is to allow for earlier recognition of a loss. If an entity intends to sell an instrument classified and measured at FV-OCI or AC, we believe it should recognize the loss it will ultimately realize.
which is equal to the difference between fair value and amortized cost. Requiring recognition of a loss equal to the difference between fair value and amortized cost when an entity intends to sell a financial asset classified and measured at FV-OCI would be consistent with the accounting treatment the Board is proposing in the 2013 R&M ED for assets recognized and measured at AC when the decision is made to sell the asset.

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?

Response 9: We agree an estimate of expected credit losses should be based on relevant information about past events, current conditions, and reasonable and supportable forecasts.

Under the current impairment model for debt securities, impairment is assessed at the individual security level, and is recognized when fair value is less than cost and the impairment is determined to be other-than-temporary. In order to acknowledge the “distinct business model” concept contemplated in the 2013 R&M ED, when financial assets are managed within a business model that has the objective of both holding financial assets to collect contractual cash flows and selling financial assets, and are classified and measured at FV-OCI, we believe an entity should be required to recognize impairment equal to the difference between amortized cost and the expected proceeds from the sale of the asset when it intends to sell a financial asset.

Estimating expected credit losses based on relevant information about past events, current conditions, and reasonable and supportable forecasts will present operability issues and will require a significant change to the current impairment processes. Entities will incur costs to develop these forecasts, there will be limited comparability across entities, and there will be increased audit costs related to the level of judgment inherent in the forecasts. Recognizing an allowance will be inherently more difficult because forecasts will need to be developed at a macro level as opposed to at the individual security level. Any time there is an introduction of or increase in management judgment there are related auditability concerns. We anticipate the allowance becoming a higher risk area for auditors and higher audit fees being incurred by entities for the additional work performed by the auditors. We believe the Board should provide a practical non-loan example to help entities and auditors understand and implement the requirement to incorporate reasonable and supportable forecasts into the determination of expected credit losses.

Additionally, please see the cost-benefit considerations related to debt securities discussed in Question 1 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?

Response 10: We do not currently have historical data for our investment portfolio to sufficiently support the historical loss experience portion of the credit loss analysis. This is reflective of our portfolio management approach to sell securities when management believes there are elevated issuer or collateral credit concerns well before an actual credit default. If the current definition of expected credit losses remains unchanged, we would likely have to rely on rating agencies and other third parties to provide us with default rates by credit rating. Third party data would likely be available at a cost and would add complexity to our process, as we would need to perform additional procedures to ensure we are comfortable with how the information was developed. This would also increase the audit work required related to this process in order for the auditors to verify the acquired information is relevant and reliable.

Additionally, as discussed in our response to Question 9, we do not believe the current definition of expected credit losses is an accurate measure of impairment for assets classified and measured at FV-OCI.
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?

Response 11: As discussed in our cover letter we believe the model will require significant time, effort, and cost to implement. As further discussed in our response to Questions 9 and 10, the proposed model would also result in additional audit effort and costs due to the increase in judgment required. We don’t believe the benefit to users of our financial statements, with regard to debt securities, justifies this cost.

We believe the proposed amendments outlined in section 825-15-25-5 of the ED requiring that the estimate of expected credit losses be 1) neither a worst-case scenario nor a best-case scenario, 2) reflect both the possibility that a credit loss results and the possibility that no credit loss results, and 3) considers the likelihood of more than two outcomes, should be clarified and enhanced. It is our understanding that the Board’s intent with the proposed requirement was that existing methodologies for measuring OTTI for debt securities using an entity’s best estimate would largely meet the new requirement so long as the current expected credit loss is not zero. This understanding is based on our observations of the Boards redeliberations on this topic. However, for a company or individual who has not followed the Board’s redeliberations, we do not believe the description of the requirement in section 825-15-25-5 of the ED is sufficient to come to this conclusion. We are also concerned that, as currently worded, preparers and auditors may conclude they must substantiate how their estimate of expected credit losses explicitly reflects both the possibility that a credit loss results and the possibility that no credit loss results. We believe the Board should provide clarity to help avoid unintended implementation and audit issues: 1) by incorporating discussion of the differences between measurement under OTTI guidance and the new model in the Basis for Conclusions and 2) by incorporating wording from the Basis for Conclusions paragraph 32 into the guidance referring to “estimation techniques that are practical and relevant to its circumstances”.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money neither 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?

Response 12: We do not foresee significant operability concerns or constraints in complying with the proposal.

We do not believe the allowance for expected credit losses on reinsurance receivables should be required to reflect the time value of money unless the related reinsurance receivables are discounted. This would avoid a mismatch of discounting between the receivable and the allowance for the receivable.

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?

Response 13: Applying the proposed model to purchased credit impaired (PCI) financial assets would pose operational difficulties. The insurance industry’s accounting and reporting systems do not contain the ability to account for an allowance on debt securities. To implement the proposed guidance, we would need to modify our investment system. Additionally, increased analysis and judgment would be required upon the acquisition of each financial instrument purchased at a discount to determine if it is PCI.
It is not clear how entities would determine whether an asset is a PCI financial asset. Paragraph 40 from the Basis for Conclusions indicates that a PCI financial asset is one in which there is a significant difference between the contractual cash flows and the expected cash flows, while the definition in the glossary references significant credit deterioration since origination. Beyond what appears to be an inconsistency between the Basis for Conclusions and the glossary, the definition in the glossary is potentially implying that a financial asset rated AAA at origination and subsequently downgraded to BBB would meet the definition of a PCI financial asset even though the asset is still investment grade. We believe the current definition of PCI asset contained in ASC 310-30-15-2 is adequate and should be retained.

**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?

**Response 14:** We appreciate the outcome that the Board is trying to achieve by establishing a practical expedient. Notwithstanding, we believe requiring the recognition of an allowance on a financial instrument classified and measured at FV-OCI with a fair value greater than cost is contradictory to the FV-OCI classification and measurement category, as the instrument may be sold at a gain.

We believe the practical expedient should be revised to eliminate the requirement to meet both of the following conditions: (1) The fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset; and (2) 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. As the guidance is currently proposed, an allowance for expected credit loss may be required in instances where the fair value is less than cost, solely due to changes in interest rates, and is independent of the credit quality of the instrument. The practical expedient should be available for election if either condition is met. This change will mitigate our operational concerns.

If the Board retains the practical expedient as it is currently proposed, we believe the Board should provide additional application guidance to assist in the determination of whether a credit loss is “insignificant”. In practice, we believe the concept of insignificant expected credit losses should correlate with a rating of investment grade.

**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?

**Response 15:** We believe this proposal will change current practice for debt securities. We also believe the proposed nonaccrual guidance adds unnecessary complication. We do not believe the benefit to users of our financial statements of placing an asset on nonaccrual status prior to default outweighs the costs required to implement this guidance. To implement this, additional processes will need to be developed to support the judgment required to make a highly subjective determination of when it is probable that the entity will no longer receive substantially all of the principal or substantially all of the interest.

We believe this guidance either needs to be enhanced, with further principal-based guidance on evaluating the “substantially all” criterion, or removed, so current practice is allowable.

Due to the significant judgment that would be required under the guidance as currently proposed, applying the nonaccrual guidance would increase our audit costs and would require substantial effort to implement.

**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

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2 Under ASC 310-30-15-2, PCI assets are loans and debt securities “…with evidence of deterioration of credit quality since origination acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable…”
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?

**Response 16:** We do not believe the distinction between troubled debt restructurings (TDR) and non TDRs continues to be relevant because when an asset is identified as a TDR, typically the instrument has already been impaired. Specifically, under an expected loss approach, the TDR designation is unnecessary because the allowance established under this model should be appropriate to address the impact of a restructuring that historically would have been accounted for as a TDR.

**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?

**Response 18:** We acknowledge this question is focusing on disclosures, but we would also like to comment on presentation. We believe for debt securities, entities should be allowed to recognize expected credit losses as a direct adjustment to the amortized cost of individual securities, rather than as an allowance. Doing so would not detract from the usefulness of the information presented to investors. Unlike accounting systems for loans, accounting systems for debt securities are not designed to account for an allowance. Recognizing credit losses as an adjustment to amortized cost rather than as an allowance would reduce the required level of investment system changes and would allow profitability measures such as book yield to remain relevant.

As it pertains to disclosures, we believe the benefits of the additional disclosures are limited and that they do not outweigh the costs that will be incurred by entities to provide them.

- 825-15-50-13 would require a roll forward of the amortized cost of an entity’s debt instruments classified and measured at FV-OCI. We do not believe a roll forward of amortized cost should be required. The only information related to expected credit losses included in the proposed roll forward is related to writeoffs. We do not object to disclosing writeoffs, but we question the need to disclose a full roll forward. If the information was not necessary in the past, it is unclear why as a result of the new expected credit loss guidance the information would now be necessary.

- 825-15-50-14 states that the disclosure requirements of paragraphs 50-12 and 50-13 are not required for certain receivables within the scope of the proposed guidance. As currently worded, the guidance would require the disclosures in paragraph 50-12 and 50-13 to be provided for lease receivables and other trade receivables. We do not believe this is appropriate.

- We also have concerns regarding the disclosures required for PCI assets. These concerns are consistent with the concerns expressed above related to the accounting for PCI assets. Due to our current system limitations and the additional analysis and valuation work required at the time of the acquisition of every financial asset, these disclosures (and the underlying accounting) will require additional cost without significant additional benefit.

**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?

**Response 19:** The implementation guidance and illustrative examples are primarily loan focused. If debt securities are retained in the scope of this guidance, additional implementation guidance and illustrative examples specific to debt securities is necessary.
In addition, we believe the Board should provide additional implementation guidance related to how a company would apply the practical expedient and any subsequent recognition or derecognition of an allowance for expected credit losses.

**Transition and Effective Date**

**Questions for All Respondents**

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

**Response 20:** We recommend the Board add specific provisions related to the transition from the existing OTTI guidance to the new model. At transition, we will hold assets whose amortized cost will have been adjusted for credit impairments under the old OTTI guidance. The current transition guidance is not clear as to whether an entity would be required to use original amortized cost or amortized cost adjusted for OTTI previously recognized, in determining the appropriate allowance upon adoption. We do not believe it would be appropriate in all situations to recognize an additional allowance for expected credit loss at transition for these assets.

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

**Response 21:** We agree that early adoption should not be permitted because early adoption would negatively impact comparability across entities’ financial statements.

**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?

**Response 22:** We believe the effective date should be the same for public entities and nonpublic entities.

**Questions for Preparers and Auditors**

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

**Response 23:** We believe the transition provision proposed is operable, however as discussed in our response to Question 20, we recommend the addition of transition guidance for assets with previously recognized OTTI.

**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?

**Response 24:** We believe from the date of issuance of a final standard, we would need at least two years to implement the proposed guidance due to the significant system and process changes that will be required.