May 28, 2013

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

Re: File Reference No. 2012-260 Proposed Accounting Standards Update, Financial Instruments – Credit Losses (Subtopic 825-15)

Dear Director,

StanCorp Financial Group, Inc. ("StanCorp") appreciates the opportunity to comment on the Proposed Accounting Standards Update on Financial Instruments – Credit Losses (Subtopic 825-15).

StanCorp is a holding company and conducts business through wholly-owned operating subsidiaries throughout the United States. Through our insurance subsidiaries, StanCorp underwrites insurance products in all 50 states as well as the District of Columbia and the U.S. territories of Guam and the Virgin Islands. Our insurance products include group and individual disability insurance, group life and AD&D insurance, group dental and group vision insurance, and absence management services. Through our asset management subsidiaries, we offer full service retirement plans, defined benefit and pension plans, investment advisory services, annuity products, and fixed-rate commercial mortgage loans.

On behalf of the management of StanCorp, please accept this input to the above noted FASB proposal regarding credit losses associated with financial instruments. As a public company and as an insurance company, StanCorp reports under both generally accepted accounting principles ("GAAP") and statutory accounting principles ("SAP"). As both a producer and consumer of financial statements, we appreciate the importance of valuing and disclosing financial instruments. This is an issue we are consistently addressing as an entity that invests heavily in financial instruments to underwrite our insurance products and as an originator of high quality fixed-rate commercial mortgage loans.

We have many concerns regarding this proposal. The comments herein are what we feel are the foremost issues that require consideration from the standard setting body.

First and foremost, the current proposal eliminates the basic premise of modern accrual accounting – the matching principle. Insurance companies, along with the banking industry and other financial institutions, collect fees and revenues from customers along with interest income from our underlying investments. This proposed change in accounting for future losses will require an acceleration of losses that MAY occur in the future to be recognized immediately while the fees, revenues and interest income are recognized in future periods. Our products are...
priced using an expected rate of return (appropriately reduced from gross yields to reflect a level of default risk), however, the acceleration of losses will result in less predictability in our reserves (which are closely correlated with investment returns). As a result, accelerating future predicted losses to the current period has a threefold impact to us as an entity – increased reserves for investment losses, increased volatility in policyholder reserves (as reserves are impacted by losses associated with the underlying investments), and decreased capital within the insurance subsidiaries due to statutory capital requirements.

Secondly, the proposed standard forces the accounting industry, both internal accounting staff and our auditors, to begin to function both as accountants and as economists. While the historical role of an accountant has generally been one of reporting events based on a point in time and evaluating the potential universe of incurred but unknown events (such as IBNR reserves, impaired loans, and impaired investments) under a model of probability and measurability, this proposal would move accountants into a role of fortune telling and speculation as they attempt to predict the creditworthiness of investments with durations potentially longer than several economic cycles. Even U.S. Government economists have been unable to uniformly agree on what the future holds for our economy in the form of interest rates, real estate markets, job markets, consumer demand, or the impact of international events just to name a few. We do not believe that asking every company that holds financial instruments and reports under U.S. GAAP to predict the future is going to improve the comparability or consistency of financial disclosures for users of the financial statements. We also do not believe that the finance staff of each individual company is more reliable and accurate than the broader financial markets that help to determine the market value (presumably fair value) of these investments. The fair market value for which a security is purchased incorporates all the market’s information regarding the level of credit risk in the security at that time, and the benefit of any non-occurrence of credit losses as time passes is already recognized through the earned rate. To take an additional loss upon purchase and recognize the non-occurrence of credit losses over time through incremental capital gains would be redundant. Further, we would like to understand how the standards body proposes addressing the inevitable risk associated with inconsistent views between different companies relating to the overall market and ultimately, the different views between a company and its audit firm. We are concerned that there could be a view that an audit firm is in a better situation to understand the potential investment risks in the global markets due to their role across entities. This could lead to perceived control problems and independence concerns as disagreements between companies’ finance organizations and audit firms occur.

Thirdly, accounting standards should provide guidelines that will result in consistent application and appropriate accounting for transactions. Current standards allow for companies to utilize an other than temporarily impaired (“OTTI”) methodology to determine potential impairments. The proposal eliminates this OTTI threshold and offers a “practical expedient” model for instruments that meet both (1) a fair value that is greater than or equal to amortized cost and (2) expected credit losses that are “insignificant”. As an insurance company, the majority of our investments are held to maturity. Fluctuations in interest rates will not necessarily result in a change to our investment strategy; however, given the current interest rate environment, assets purchased currently are going to be at a much lower face value rate than historical norms. As interest rates begin to rise (presumably they will rise in the relatively near future), the inherent fair value of these investments will decline resulting in very few of our investments meeting the practical expedient threshold. We do not believe that the inevitable rise in interest rates would change the risk of impairment for these instruments. However, they would no longer qualify for the practical expedient model. The rise in market rates would necessitate an increase in impairments or an evaluation for impairment for the Company despite our intent to hold the
securities until maturity. As market rates (and ultimately the risk free rate) have been highly volatile in recent years, this appears to create an onerous amount of work for institutions such as ours with very little improved value to the users of the financial statements.

Lastly, in regard to unintended consequences, we note a number of risks to broader financial markets as a result of this proposed standard. This proposal is likely to increase the strain on current financial markets. On a macro basis, this standard is likely to increase volatility in financial results for all entities, but mostly banks, insurance companies, and other institutions that hold large amounts of financial instruments on their balance sheets. As noted above, this will have a direct impact on capital levels for insurance companies and banking institutions, which will undoubtedly result in declines in lending and borrowing activities. Further, as noted above, the comparability of financial statements between entities, even with improved reporting of underlying assumptions, will certainly diminish. A user of the financial statements has historically been able to look to fair value disclosures as compared to amortized cost to determine some level of risk associated with the investments and utilize this information to compare financial risk between organizations. This proposal reduces the ability of financial statement users to compare entities as effectively.

StanCorp strongly opposes the FASB’s proposed credit loss model for financial instruments. We do not believe that had this model been in place prior to 2008 it would have improved the accuracy or informative value of financial statements or actual results leading up to and through the great recession. Existing accounting principles, if properly applied and supplemented with appropriate financial disclosures as required under existing accounting standards, produce reliable, credible and comparable financial statement information. As a result, we do not believe a change is necessary or appropriate at this time.

With kind regards,

Robert Stackhouse
Second VP, Accounting Policy and Assistant Controller