May 31, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5166
Norwalk, CT 06856-5116

File Reference No. 2012-260 Financial Instruments – Credit Losses (Subtopic 825-15)

Baldwin & Lyons, Inc. (“Baldwin”) is pleased to respond to the FASB’s invitation to comment on the proposed standard on Financial Instruments – Credit Losses (“ED”). Baldwin is a specialty property-casualty insurer with a leading position in providing liability coverage for large and medium-sized trucking and public transportation fleets as well as coverages for trucking industry independent contractors. Baldwin supports the Board’s effort to work with the International Accounting Standards Board to revise and improve the respective standards of accounting for financial instruments by reducing the complexity in the current approach and to provide the financial statement users with more useful information about the expected credit losses on financial assets. However, Baldwin is strongly opposed to the approach and scope of the ED’s current expected credit loss model.

Appendix - Answers to Selected Questions for Respondents

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 that possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome. 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 we see significant potential operability concerns and 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 calculation and the disclosure requirements are extensive and will not offer any incremental benefits to the users of our financial statements. Additionally, the proposed guidance results in the recognition of credit losses for most all financial assets, even when the chance of a loss occurring is remote. We primarily invest in investment grade debt securities and we experience limited write-offs. The proposed requirements will require extensive time and resources without any material financial statement impact.
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 see significant potential operability concerns and constraints in applying the practical expedient. The currently proposed practical expedient is too limited in scope thus requiring the preparers to estimate impairment losses for a significant number of debt securities, even though these assets have historically produced limited credit declines. The fair value of debt securities are influenced by factors such as interest rates and foreign currency exchange rates and not just credit risk. Therefore, select debt securities may qualify for the practical expedient in one quarter and then may not qualify in the next quarter solely based on minor changes in the interest rate environment. The tracking of these debt securities will be arduous compared to the related financial statement impact. Additionally, the financial statement volatility and financial statement disclosures won’t provide adequate revelation of any real changes in credit risk.

We recommend that the Board focus on those instruments with actual credit risk. We believe the proposed guidance focuses too much time and resources on most all debt securities, even those with a remote possibility of credit risk.

Should you have any further questions or require additional information, please contact me at your convenience.

Regards,

Michael B. Edwards
Assistant Vice President – Finance