The Chubb Corporation is a holding company with subsidiaries principally engaged in the property and casualty (P&C) insurance business. We appreciate the opportunity to comment on the proposed Accounting Standards Update (ASU), Financial Instruments – Credit Losses (Subtopic 825-15). At March 31, 2013, the Corporation held about $38 billion of available-for-sale debt securities and had reinsurance receivables of about $2 billion. Accordingly, this proposed ASU would affect the Corporation’s financial statements.

We support the Board’s efforts to provide financial statement users with decision-useful information about credit losses of financial assets that are debt instruments. As discussed below, we do not support the Board’s proposal for the recognition of credit losses on debt instruments. Specifically, we do not agree with the Board’s decision to include debt securities that are carried at fair value in the scope of the proposed ASU. The fair value of marketable debt securities already contemplates expectations about cash flows that may be different than contractual cash flows and reflects the possible effects of credit and other risks and uncertainties. The proposed credit loss model does not adequately consider the distinct differences in the characteristics of marketable debt securities carried at fair value and loans carried at amortized cost. We believe the Board should retain separate credit loss models for loans and debt securities, given the difference in how credit risk is managed by the holders of loans and debt securities. The improvements made in 2009 to the other-than-temporary impairment guidance in Accounting Standards Codification (ASC) 320 have proven to be a reasonable approach to dealing with credit losses of debt.
securities. The current guidance has worked well, is operational and is understandable to users.

Scope

We appreciate the Board’s objective to reduce complexity by replacing the numerous existing impairment models in current U.S. generally accepted accounting principles (GAAP) with a consistent measurement approach. However, we do not believe that attempting to have a “one size fits all” model will necessarily result in less complexity.

We do not support the Board’s decision to include debt securities that are carried at fair value in the scope of the proposed ASU. The fair value of marketable debt securities already contemplates expectations about cash flows that may be different than contractual cash flows and reflects the possible effects of credit and other risks and uncertainties. While we recognize the possible relevance of including financial assets that are measured at amortized cost in the scope of the proposed ASU, we do not agree that this principle should apply to financial assets that are measured at fair value. We believe, and the Board also acknowledged, that the borrower’s creditworthiness is a key factor in the pricing of a debt instrument. Measuring debt instruments at fair value at each valuation date in the statement of financial position and reflecting the resulting change in those fair values in the statement of comprehensive income appropriately recognizes the expected credit losses of debt instruments based on the current present value of cash flows expected to be collected. We therefore recommend that the Board exclude debt instruments that are measured at fair value from the proposed model and instead maintain the current impairment model for those securities.

We do not agree with the application of the proposed measurement model to reinsurance receivables. We recommend that reinsurance receivables that result from reinsurance transactions within the scope of Topic 944 should be excluded from this proposed ASU and be considered within the scope of the Board’s current project on accounting for insurance contracts.

Recognition and Measurement

An estimate of credit losses should be based on internally and/or externally available information that is relevant in making the estimate. Organizations that carry debt securities at fair value through other comprehensive income perform an assessment of credit losses at an individual security level after giving consideration to both quantitative criteria and qualitative information specific to the issuer as well as general market and industry or sector conditions. Under the approach made operational under ASC 320, the financial position of entities carrying debt securities at fair value through other comprehensive income reflects the impact of possible losses from the credit
deterioration of the issuers of the debt securities. After consideration of the quantitative criteria and qualitative information, depending on the length of time a debt security has been impaired and the magnitude of impairment of an individual debt security, the holder will recognize an other-than-temporary impairment. This process provides meaningful and timely recognition of credit losses in net income.

We believe that there are operational challenges to determining the estimate of expected credit losses each quarter based on evaluations of past events, current conditions and reasonable and supportable forecasts of the future. Each quarter, enterprises would potentially be required to perform detailed analyses, to understand and validate the methodologies used by third party providers, such as rating agencies, in the development of credit ratings and prepare and/or give consideration to economic forecasts, all of which would be required to calculate expected credit losses. At least annually, auditors would be required to audit the processes, assumptions and the data supplied by the rating agencies as well as attest to the reasonableness of the economic forecasts. Additionally, it is unreasonable to think that each reporting period an entity could accurately and efficiently forecast future events that may occur over the contractual terms of the debt instruments or that most organizations would have the resources or expertise to develop such forecasts.

We expect that there would be significant costs associated with making the changes that would be required to our current systems and infrastructure to comply with this proposed accounting change, with minimal benefit to users of our financial statements.

If the Board continues to proceed with the credit loss model as proposed, we recommend that the Board modify the proposed practical expedient. The practical expedient proposed by the Board for debt securities measured at fair value with qualifying changes in fair value recognized in other comprehensive income would permit reporting entities to not recognize expected credit losses when both (a) the fair value of the individual asset is greater than or equal to the amortized cost and (b) the expected credit losses on the individual financial asset are insignificant. We believe the practical expedient in its current form is not operational over a sustained period of time. The first criterion could alternately be met or not met merely due to fair value changes that result from factors other than credit, such as market interest rate movements and liquidity. If the Board was to modify the practical expedient criteria so that only one of the two conditions needs to be met to qualify for the practical expedient, it would be more operational while not compromising the objective of timely recognition of credit losses.

We have considered how the proposed expected credit loss measurement model would operate for an entity that holds (over a long period of time) a large portfolio of highly diversified debt securities with stable credit and duration. We
considered what would be the impact to net income in the periods following adoption under the proposed expected credit loss measurement model compared to the existing incurred loss model for other than temporarily impaired securities. Consider the following fact pattern: Assume an entity holds a diversified portfolio of debt securities that over time retains a stable duration and high credit quality. Upon adoption of the proposed guidance, an allowance for expected losses would be recorded and that amount would likely remain relatively stable in periods following initial adoption assuming there are no significant changes in the size, duration or credit quality of the portfolio. As will happen from time to time, individual debt securities will experience credit deterioration resulting in a decline in expected cash flows to a level below contractual cash flows. The allowance reserve would absorb the impact of the write down of such a security. The reserve would then need to be re-established to a level similar to the level prior to the security write down, since the individual impaired security would be insignificant to the overall size, duration and credit quality of the overall portfolio, and the overall amount of required allowance would remain about the same. We believe that the measurement and recognition in net income of the credit loss, in both amount and timing, would therefore be similar to the amount and timing that would be recognized under the current other-than-temporary-impairment model.

In addition, if the Board does not exclude debt securities that are measured at fair value from the scope of the proposed ASU, we recommend that the Board modify the proposed guidance related to recognizing interest income on purchased credit-impaired financial assets. The proposed ASU defines purchased credit-impaired financial assets as “acquired individual financial assets or acquired groups of financial assets with shared risk characteristics that have experienced a significant deterioration in credit quality since origination, based on the assessment of the acquirer.” It is unclear how the concept of “significant deterioration” would be applied to financial assets, specifically debt securities, that are purchased in the secondary markets. We recommend that the Board clarify the criteria used to identify purchased credit-impaired financial assets. This can be accomplished by utilizing the current guidance included in ASC 310-30 *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, which is based on a determination at acquisition of whether it is probable that an investor will be unable to collect all contractually required payment amounts. This would be a practical and operational approach to ensure that both purchased and originated assets would follow a similar model and to ensure that the discount embedded in the purchase price of a financial asset that is attributed to probable credit losses would not be recognized as interest income.

**Disclosures**

We support the Board’s objective, included in the Disclosure Framework, to improve the effectiveness of disclosures in the notes to financial statements by clearly communicating information that is most important to users of an entity’s
financial statements. The disclosure requirements included in the proposed ASU are not consistent with that objective. The proposed ASU does not allow a reporting entity the flexibility to present relevant disclosures based on the industry in which it operates or its individual business model. Reporting entities may be required to produce voluminous disclosures that are a burden to prepare, difficult to audit and may not be useful or important to the users of the financial statements.

Convergence of FASB and IASB Standards

One of the primary objectives of the financial instruments joint project of the FASB and IASB was to achieve convergence in the accounting for financial instruments. The FASB and IASB have issued separate exposure drafts and have reached different conclusions regarding the recognition and measurement of credit losses.

As a U.S.-based SEC registrant and an entity with subsidiaries engaged in the P&C insurance business in many countries, we prepare financial statements in accordance with U.S. GAAP, U.S. statutory accounting principles and statutory accounting principles in other countries. International Financial Reporting Standards (IFRS) have begun to replace the statutory accounting principles in some countries in which we conduct our business.

Currently, most of our financial instruments are accounted for similarly throughout the world and a uniform accounting system supports our accounting needs for such instruments. Such system has been designed to specifically support the highly detailed reporting requirements of certain regulators, particularly in the United States. If convergence is not ultimately achieved, we would be required to maintain multiple processes and systems to account for financial instruments for consolidated reporting in the U.S., for U.S. regulatory accounting purposes and for regulatory reporting under IFRS in other countries. This would result in significant operational challenges and increased costs. We encourage the Boards to work together to achieve convergence in this project. While we support convergence in principle, we also support the development of accounting standards that are practical and that result in financial reporting that is transparent and comprehensive. We are also interested in the development of standards that are not unreasonably burdensome and are responsive to industry specific issues.

Finally, however, we acknowledge the Board’s willingness to pursue a path for this project separate from the path of the IASB if the Board feels that the converged outcome is unworkable or inconsistent with its own framework. As the Board pursues its own view on this project, we continue to urge the Board to consider that new guidance that only achieves partial convergence and reflects compromises made by the Board in the process of achieving partial convergence
will not necessarily produce an accounting standard for financial instruments that represents an improvement over our current accounting model.

**Conclusion**

We disagree with the Board’s decision to include debt securities that are measured at fair value and reinsurance receivables that result from insurance transactions within the scope of Topic 944 in the scope of this proposed ASU. The existing guidance included in U.S. GAAP for the treatment of other-than-temporary impairment of debt securities that are carried at fair value with changes in fair value included in other comprehensive income is operational and has been proven to recognize credit losses related to debt securities in a reasonable manner. We recommend that the Board consider revising the proposed expected credit loss measurement model to address the operational challenges that we have described above.

We would be pleased to discuss our comments with the members of the Board or its staff.

Very truly yours,

John J. Kennedy
Senior Vice President and
Chief Accounting Officer