2016-200

Comment Letter No. 13

CNA
333 S. Wabash Ave. Chicago IL 60604

April 25, 2016

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2016-200

Dear Ms. Cosper,

CNA Financial Corporation (referred to in this letter as CNA, the Company, we, our, and us) appreciates the opportunity to comment on the proposed Accounting Standards Update (ASU), Compensation—Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. CNA is the country’s eighth largest commercial insurance writer and the 14th largest property and casualty insurer.

CNA sponsors noncontributory defined benefit pension plans as well as certain postretirement health care benefits to eligible employees. The majority of these plans are closed to new participants. At December 31, 2015, CNA’s pension and post retirement obligations totaled $2,821 million and $23 million, respectively.

The components of pension and post retirement expense (net benefit cost) were established as a reasonable approach to apportion the cost of these employee benefits over employee service period. When analyzing expenses and creating forecasts, we consider all components of net benefit cost to be employee benefit costs. We believe the aggregate net benefit cost should be presented as operating expenses. While the service cost component is more clearly seen as arising from services rendered by employees, all the components in the aggregate reflect the cost of the employee benefit we provided to our employees.

In the Introduction section of the Basis of Conclusions, the Board states the objectives of the proposed amendments are to increase transparency of the net benefit cost and to provide financial statement users additional disaggregated information to facilitate their analyses. As the components of net benefit cost are clearly disclosed in the notes to the financial statements each quarter, we believe there is already a high level of transparency regarding the aggregate benefit cost as well as the individual components.

Rather than mandate a disaggregated presentation of the components of net benefit cost, an alternative approach would be to require financial statement preparers to explicitly disclose how the components of net benefit cost are presented in the Statement of Operations. While this approach does not achieve uniform consistency across all preparers, it would provide flexibility to those entities that have elected to recognize all gains and losses from the remeasurement of plan assets and defined benefit obligations immediately in the income statement to present net benefit cost differently from what we believe are the majority of preparers who view the aggregate net benefit cost to be part of operating expenses.

We also note it is unusual for the Board to prescribe presentation outside of operating income. This direction is based on the Board’s view that these components relate to activities that would be classified as financing or investing activities, or are the recycling of prior period results in subsequent periods. While we acknowledge the individual components of net benefit cost may
have different predictive value, we are not aware of any other income statement presentation guidance within GAAP that is driven by the cash flow classification.

Further, as a public insurance group, CNA’s income statement presentation follows the prescriptive guidance contained in Rule 210.7-04 of Regulation S-X of the Securities and Exchange Commission (the SEC). The prescribed presentation does not include a subtotal for income from operations; however, CNA uses Net Operating Income (NOI) as its segment measure. NOI is calculated as excluding from net income (loss) the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. We exclude net realized investment gains or losses from NOI because these amounts are largely discretionary, except for losses related to other than temporary impairment, and are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance and are therefore not considered an indication of trends in insurance operations.

Under the SEC’s prescriptive presentation there is not a clear alternative as to which line item to present the components of net benefit cost if service cost was to be bifurcated from the remaining components. Our aggregate net benefit cost is presented within other operating expenses. As previously mentioned, operating income is not presented on the income statement; therefore these amendments have the potential to create additional income statement line items that may not be in accordance with current SEC regulations for insurance companies.

Lastly, net benefit costs would be considered under the insurance guidance in 944-30 — Financial Services—Insurance —Acquisition Costs, as costs that would be eligible for capitalization as a component of acquisition costs relating to the successful acquisition of a new or renewed insurance contract. We believe requiring disclosure of the amount capitalized and the basis for capitalization would address stakeholder concerns relating to transparency surrounding the amounts capitalized. This would be less costly for preparers and would provide more meaningful disclosures for a user.

We appreciate the Board’s efforts to improve the financial statement presentation related to retirement benefits. The remainder of this letter addresses the questions contained in the ED.

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

Sincerely,

Lawrence J. Boyden
Questions for respondents:

**Question 1:** Should the service cost component be reported in the income statement apart from the other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 and be the only component eligible to be capitalized in assets? Why or why not?

**Response 1:** As discussed above, we challenge the value of the presentation of the service cost component separately from the other components of net benefit cost, as we view all of these components to be reflective of benefit cost given to our employees. Further, we believe these components are presented in the footnotes to the financial statements at a sufficient level of detail. In addition, we do not believe service cost should be the only component eligible to be capitalized in assets as we view all components as benefit cost given to our employees. To address stakeholder concerns relating to transparency of the amounts capitalized, we believe requiring disclosure of the amount capitalized and the basis for capitalization would be a less costly and more meaningful alternative.

**Question 2:** Would it be useful to require presentation of the prior service cost or credit component separately from the other components? Should all of the components of net benefit cost other than the service cost component (for example, the prior service cost or credit component) be presented outside a subtotal of income from operations, if one is presented? Why or why not?

**Response 2:** As discussed above, we believe that net benefit cost should not be disaggregated as management considers all costs to be related to employee benefits. As the components of net benefit cost are presented within the footnote disclosures, we believe this is sufficient for readers to understand the net benefit costs.

**Question 3:** Would it be useful to require presentation of the net amount of the interest cost component and expected return on plan assets separately from the other components of net benefit cost to improve convergence with International Financial Reporting Standards (IFRS) or for other purposes? Why or why not?

**Response 3:** While we recognize the benefit of aligning US GAAP with IFRS, as mentioned above, we view all costs relating to employee benefits together, and therefore do not support a view that would further disaggregate the various components.

**Question 4:** Would the proposed amendments improve the usefulness of financial information provided to users? Why or why not?

**Response 4:** As mentioned above, we do not believe the proposed amendments would improve the usefulness of financial information provided to users as most of the information is already required to be disclosed in the footnotes to the financial statements. Rather than require separate presentation, an alternative would be for entities to explicitly disclose how the components of net benefit cost are presented in the Statement of Operations, which would allow latitude for entities that immediately recognize remeasurement gains and losses in the Statement of Operations and may have different presentations from the entities that view all components to be related to employee benefits. In addition, as a public insurance group, we are subject to the prescriptive guidance in SEC 210.7-04 and therefore do not present operating income in our income statement. While we present operating income within our business segments footnote, we typically only present net realized investment gains, as these amounts are largely discretionary, and any amounts from discontinued operations and accounting changes as items outside of operating income. Introducing an additional line below operating income may cause additional confusion to readers, particularly as we view all components of net benefit cost together.

**Question 5:** Should the proposed amendments be different for rate-regulated entities? Why or why not?
Response 5: This is not applicable to CNA.

Question 6: Would the proposed amendments be operable without incurring significant incremental costs by entities (such as not-for-profit entities, entities that enter into cost-plus contracts or government contracts including but not limited to contracts under Cost Accounting Standards Board regulations, and entities that allocate cost from cost pools)? Why or why not?

Response 6: We believe that the information required to be disaggregated is readily available to entities, as it is already required to be disclosed in the financials, and therefore we would not expect to incur significant costs.

Question 7: How much time would be necessary to adopt the proposed amendments? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Why or why not?

Response 7: We believe that most of the additional information required to be disclosed is readily available, and thus from the date of issuance of a final standard, we would not need a significant period of time to implement. This could be different for other entities that have significant components that are capitalized into assets and may require system changes. Further, we support permitting early adoption of the standard.

Question 8: Should the proposed amendments be applied retrospectively for the presentation of the service cost component and other components of net benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net benefit cost in assets when applicable?

Response 8: We would support the retroactive application to the presentation in the income statement to allow for comparability. However, the capitalization of the service cost component should be applied prospectively, as system changes and methodologies may need to be implemented and changed to accurately reflect the amount of service cost capitalized in assets, and it may be impracticable for companies to strip out the amount capitalized cost therefore incurring more cost to companies than benefits to a potential user.

Question 9: Should the disclosures of the nature of and reason for the change in accounting principle be required in the first interim and annual reporting periods of adoption? Why or why not?

Response 9: We support the requirement to disclosure the nature of and reason for the change in accounting principle in the first interim and annual reporting periods of adoption as this is necessary to help the readers understand the change.