



## THE CHUBB CORPORATION

15 Mountain View Road, Warren, New Jersey 07059

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September 30, 2010

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

Re: File Reference No. 1810-100

Dear Mr. Golden:

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), *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities – Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*. At June 30, 2010, the Corporation held \$42 billion of invested assets and had \$4 billion of outstanding long term debt. Accordingly, this proposed ASU would significantly affect the Corporation's financial statements.

We support the Board's efforts to respond to calls of constituents for useful and relevant information about an entity's financial instruments. However, as discussed below, we do not agree with several provisions of the proposal that are important to us and we are disappointed that the Board was unable to achieve greater consensus with the International Accounting Standards Board (IASB) on fundamental provisions of the proposal, including classification and measurement of financial instruments.

## Overall

We support the principle that gains and losses that are expected to reverse in connection with the company's business strategy to hold debt securities to collect their contractual cash flows should not result in changes in fair value being recorded in net income. We are concerned that the proposed ASU would require many financial services companies, including many in the insurance industry, to record the change in fair value of most debt securities in net income, an outcome which will introduce meaningless volatility and a lack of consistency in the income statement. As a result, income measures monitored by investors in insurance companies would be impacted by changes in fair value measurements that are expected to reverse over time and never be realized.

As a global entity with subsidiaries and operations around the world, we are concerned with the divergence between the FASB and IASB in accounting for financial instruments, particularly the classification and measurement models included in this proposed ASU compared with those already adopted by the IASB. We prepare financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP), U.S. statutory accounting principles and the statutory accounting principles of other countries. International Financial Reporting Standards (IFRS) will replace the statutory accounting principles in many countries in which we conduct our business. If convergence is not ultimately reached, we would be required to maintain multiple accounting systems to comply with U.S. GAAP, U.S. statutory accounting principles and IFRS. This would result in significant operational challenges and increased costs to comply with such standards. We encourage the Boards to work together to achieve convergence in this project as we believe it is one of the critical projects in the convergence effort.

## Business Strategy

We agree with the Board's assessment that financial instruments should be reported in the balance sheet at fair value. We also agree with the principle that unrealized gains or losses expected to reverse in the context of the entity's business model should be reported through other comprehensive income (OCI). However, we find the Board's business strategy criteria to qualify for reporting changes in fair value through other comprehensive income (FV-OCI) too restrictive. We are concerned that the proposed criteria would result in entities reporting fair value changes that are expected to reverse in the future in the income statement. We believe that, at a minimum, this would make the income statement more volatile and unrepresentative of the way insurance companies manage their business. It would distort the operating results of the entity and would be misleading to the users of financial information.

As a P&C insurer, our business model is to underwrite and manage a variety of insurance risks while managing our investment portfolio in order to ensure that funds will be available to meet our insurance obligations. While our general business strategy is to hold debt securities to collect the contractual cash flows to support our insurance operations, there are circumstances that result in a prudent level of sales. This is consistent with the insurance business model.

Many insurance companies manage their portfolios to respond to changes in the duration of insurance liabilities and to manage liquidity needs influenced by claim payment patterns. While sales activity often could be characterized as modest, it may rise above the level of minimal activity contemplated by the Board in the proposal in order for a company's business strategy to meet the criteria for FV-OCI treatment.

We request that the Board clarify the business strategy criteria in the proposal so that entities operating under the business model discussed above qualify for FV-OCI treatment. Otherwise, the proposed criteria would force insurance entities to report the changes in fair value of debt securities in the income statement even though they would most likely reverse in the future.

#### Equity Method

We do not agree with the Board's decision to limit investments accounted for under the equity method to those where the operations of an investee are related to the investor's consolidated operations. We believe that this criterion is arbitrary. We believe that when the investor has significant influence over an investee, the investor should include its portion of the investee's results in its financial statements, regardless of the investee's operations.

We currently use the equity method to account for our investments in private equity limited partnerships based on the net assets provided by the manager of each partnership. As a result of the timing of the receipt of valuation data from the investment managers, activity related to these investments is generally reported on a lag of up to three months. We do not believe that the proposed guidance as it relates to these types of securities is operational. If we are required to carry our investment in private equity limited partnerships at fair value, we do not believe it will be practical to obtain such valuation data from the investment managers as of the measurement date. We also do not believe that attempts to estimate the measurement date value of amounts reported to us on a lag would necessarily result in reliable values.

## Financial Liabilities

We do not agree with the requirement in the proposed ASU that debt issued by an entity should be carried at fair value unless an entity qualifies for the election to carry such debt at amortized cost. As proposed, most financial institutions would not qualify for this election which would result in carrying issued debt at fair value and reporting subsequent changes in fair value either through net income or OCI. We do not believe this is would provide investors with the most relevant and reliable information.

The Board acknowledged but dismissed the concern that it is misleading and inappropriate that an entity that experiences a credit downgrade that results in a lower valuation of its debt reports an increase in its earnings and/or equity, and conversely, an entity that experiences a credit upgrade that results in a higher valuation of its debt experiences a decrease in its earnings and/or equity. We disagree with the Board's conclusion. Changes in fair value resulting from changes in credit ratings, interest rates, credit spreads, etc., do not represent changes in the issuer's ultimate contractual obligations. Most entities settle their financial liabilities with counterparties in accordance with the contractual terms of the obligation. Therefore, we believe an entity's issued debt should be carried at amortized cost since it represents the actual cash flows an entity will use to settle its contractual obligations. This would be the most valuable information for an investor when trying to evaluate an entity's liquidity or financial position.

## Credit Impairment and Interest Income Recognition

We believe that the concepts underlying the impairment model in existing U.S. GAAP remain appropriate for determining if a debt security has experienced a credit impairment. The determination of whether a credit impairment exists should be based on management's best estimate considering all relevant and reliable information. The proposed requirement to consider only past events and existing conditions and to presume that existing economic conditions as of the assessment date remain unchanged would limit management's ability to make its best estimate regarding expected cash flows. Therefore, we do not believe that the Board should explicitly limit the information that should be used to determine if a financial asset has experienced a credit impairment.

We support the principle which would provide preparers with the option to evaluate financial assets for credit impairment on an individual or pool basis. However, we do not believe that a preparer should be required to perform an additional impairment test on a pool basis when a financial asset has been tested individually and deemed not impaired. As the Board noted in the proposed ASU, debt securities often have unique characteristics that require an individual assessment. Requiring management to perform additional testing once it has exercised its best judgment in determining that a debt security is not impaired is unnecessary. We are concerned that any historical loss rates applied to a homogeneous pool of debt securities would result in overstating the credit impairment recognized in the income statement.

The proposed ASU would require the use of a valuation allowance to record credit impairment. The current practice of many financial institutions is to evaluate debt securities for impairment on a security specific basis. For other entities, evaluation of impairment of financial instruments on a pool basis is more efficient and practical. We recommend that the Board permit entities the option of directly adjusting the underlying amortized cost of an impaired security or regularly evaluating and adjusting the amount of a valuation allowance to carry. This would minimize operational costs and system enhancements that would be necessary to comply with this proposed ASU. The Board could provide examples of the acceptable methods, including the direct write-off method or the valuation allowance approach, but should not mandate a required method.

We agree that specific changes in facts and circumstances may cause an entity to have an expectation about the credit impairment of a financial asset that differs from its expectation in a previous reporting period. Therefore, we support the principal that if an entity has previously recognized a credit impairment in net income, but in a later period obtains information about the collectibility of cash flows of a financial asset that indicates there is an improvement in the amount and/or the timing of expected cash flows, the entity shall recognize a reversal of the credit impairment (limited to the total impairment recorded) in net income during the current period. We believe this should be permitted under all acceptable methods of credit impairment recognition.

Investment income of an insurance company is a critical performance metric that is widely used and relied upon by investors, analysts and management. We believe that investment income reported in the financial statements should continue to comprise income earned and expected to be received as well as the accretion of discount and amortization of premium. Under the proposed ASU, interest income for debt securities classified as FV-OCI would be calculated by applying the original effective interest rate to the amortized cost balance reduced by the allowance for credit losses. Any interest received in excess of the amount accrued would be recorded as an increase to the valuation allowance and not as investment income. We believe that similar to current practice, the determination of interest income should be based on the cash flows of interest and dividends that are expected to be received. We do not believe that investment income received in excess of the amount derived from the mandated investment income calculation should be warehoused in the valuation allowance. We believe the valuation allowance should only include the expected amount of credit impairments based on management's best estimate.

#### Reclassification

As previously noted, we believe that financial assets should be measured based on an entity's business strategy. Therefore, we believe that reclassification should be permitted when an entity's business strategy for managing these assets changes. This ensures that the financial statements reflect the entity's current business strategy for its financial assets which would be more relevant to investors. We would expect reclassifications to be infrequent.

#### 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 IASB has proceeded more quickly than the FASB on part of this project and we are concerned with the divergence between the conclusions reached by the FASB and IASB in the accounting for financial instruments, particularly the classification and measurement models included in this proposed ASU compared with those already adopted by the IASB.

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. IFRS will replace the statutory accounting principles in many countries in which we conduct our business.

While we do believe that fair value provides users of financial statements with the most relevant measure for financial instruments, in order to promote the achievement of convergence, we could support accounting for debt security financial instruments that are held for the collection of contractual cash flows at amortized cost. This would be consistent with the IASB's approach to classification and measurement for financial instruments included in IFRS 9.

Currently, most of our financial instruments are accounted for similarly throughout the world and a uniform accounting system has been able to support our accounting needs for such instruments. 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 as we believe it is one of the critical projects in the convergence effort.

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