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May 15, 2013

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

Re: File Reference No. 2013-220

Dear Technical Director,

CNA Financial Corporation (referred to in this letter as CNA, we, our, and us) appreciates the opportunity to comment on the FASB's Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities Exposure Draft (ED). CNA is the seventh largest commercial insurance writer and the thirteenth largest property and casualty writer in the United States.

At March 31, 2013, CNA's investment portfolio totaled \$48 billion with 90% invested in fixed-maturity debt securities classified as available for sale (AFS) and measured at fair value, with changes in fair value recognized in other comprehensive income. Based on the principles associated with the Contractual Cash Flow Characteristic (CCFC) and Business Model assessments, we strongly believe the majority of our AFS debt securities should be classified and measured at Fair Value through Other Comprehensive Income (FV-OCI). We believe this is appropriate because we purchase the debt securities with the objective of collecting cash flows, with the option to sell securities based on a number of market factors.

We agree with the principles-based approach proposed in the ED. We also agree that financial reporting of financial instruments is improved by developing a consistent, comprehensive framework for classifying financial instruments that links the recognition and measurement of financial assets to the way in which an entity expects to benefit from the cash flows. However, it appears the proposed model will result in certain instruments being classified into measurement categories that are inconsistent with the business model and the substance of the instrument.

In our review of the ED, we identified the following concerns and proposed refinements to the guidance.

Contractual Cash Flow Characteristics

Strict Definition of Principal or Interest

The ED does not provide any consideration for the significance of potential cash flows that are not solely payments of principal or interest. In applying the CCFC criterion and determining if cash flows are solely payments of principal and interest, certain instruments that would otherwise qualify for FV-OCI or Amortized Cost (AC) classification and measurement, based on the business model of the instrument, would be classified and subsequently measured at Fair Value through Net Income (FV-NI) due to the presence of cash flows that are not significant and do not meet the strict definition of principal or interest. For example, certain financial assets may include contract terms that provide for late fees associated with untimely payments of principal or interest.

We believe that if the business model for the instrument supports FV-OCI or AC classification and measurement and **substantially all** the cash flows of the instrument are payments of principal and interest, then FV-OCI or AC classification and measurement should be permitted. We believe adding a significance criterion to the solely principal and interest provision would prevent potential and/or insignificant cash flows from altering classification. As further discussed below, the "substantially all" concept is already included in the implementation guidance relating to prepayment options. Should the Board accept this proposed refinement, further guidance on the application of this concept would be welcome.

In addition, we are concerned that certain investments with prepayment options may be precluded from the FV-OCI or AC classification and measurement categories due to the possibility that a prepayment may result in cash flows that do not substantially represent unpaid amounts of principal and interest. Specifically, if a financial asset with a make-whole prepayment feature was purchased at a discount, the possibility that the security could be repaid at par may result in a determination that the prepayment amount does not substantially represent unpaid amounts of principal and interest depending on the size of the discount at initial recognition. The proposed amendments do not

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define or provide adequate guidance around “substantially” in this case and do not permit consideration of the probability of prepayment. Likewise, a similar concern exists if a financial asset is purchased at a premium, and a prepayment option exists with no make-whole provision. We believe further guidance is required in this respect. Alternatively, we believe that the definition of principal could be expanded to include repayment of the principal amount at maturity or other settlement. See our detailed response to Question 5 for further details.

Analysis and Documentation of the Assessment of the CCFC Criterion

Review of the CCFC criterion will require incremental analysis to be performed upon initial recognition of each financial instrument in order to support the instrument’s classification and measurement category designation. Such analysis will require compilation of documentation to support the reporting entity’s assessment and facilitate review by auditors. Performing this analysis for more complex securitized financial assets will be especially challenging given the additional requirements to look-through to the underlying pool of assets and associated cash flows. Not only will this represent a real cost for preparers, it will create significant auditability challenges, specifically concerning whether the entity has the ability to perform such analysis. These burdens will be somewhat mitigated by the adoption of the suggested refinements noted in this letter.

Beneficial Interest Credit Risk Assessment

We disagree with the application guidance provided for beneficial interests in securitized financial assets (beneficial interests). We do not believe that beneficial interests with higher credit risk than the underlying assets should automatically default to FV-NI if they otherwise pass the CCFC and business model assessments for FV-OCI classification. We believe beneficial interests should be evaluated under the CCFC criterion in the same manner as other financial assets. We appreciate the Board’s concerns, as expressed in the Basis of Conclusions section of the ED, regarding the importance of avoiding structuring opportunities and certain junior tranches qualifying for AC classification and measurement, however, this concern is not applicable when the business model is both to hold to collect cash flows and to sell financial assets.

Secondly, as noted above and as further discussed in response to Question 9, we do not agree with the look-through approach. We believe this overcomplicates the classification and measurement assessment for beneficial interests, imposes an undue burden on the preparer to obtain sufficient support for an assessment on the underlying assets and has inherent auditability difficulties. We believe if the contractual terms of the beneficial interest give rise to cash flows that substantially represent payments of principal and interest and the business model is both to hold to collect cash flows and to sell financial assets, then the beneficial interest should qualify for FV-OCI classification and measurement. The separate application guidance currently proposed for securitized financial assets is inconsistent with a principles-based model, could reduce comparability between debt securities with similar credit risk, and adds an unnecessary complication to the guidance.

FV-OCI Assets Subsequently Identified for Sale

The ED provides clear guidance on the treatment of assets classified and measured at AC which are subsequently identified for sale. We believe this guidance should be expanded to include assets classified and measured at FV-OCI which are subsequently identified for sale. We believe that any impairment that exists at the point an asset is identified for sale should be reflected in net income, consistent with current guidance.

The remainder of this letter addresses the specific questions applicable to CNA contained in the ED and further elaborates on our conclusions.

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

Sincerely,


Lawrence J. Boysen

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Scope

Question 1: *Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?*

Response 1: We agree with the financial instruments currently included within the scope.

Question 2: *Do you agree with the industry-specific specialized guidance scope exceptions in paragraph 825-10-15-9? If not, why? What would you propose instead?*

Response 2: We agree with the industry-specific scope exceptions provided given the specialized accounting practices associated with these industries.

Recognition

Question 4: *Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?*

Response 4: We believe the proposed model will result in instruments being classified into measurement categories that are inconsistent with the business model for the instrument and inconsistent with the current classification. In applying the CCFC criterion and determining if cash flows are solely payments of principal and interest, certain instruments that would otherwise qualify for FV-OCI or AC classification and measurement, based on the business model of the instrument, would be classified and subsequently measured at Fair Value through Net Income (FV-NI) due to the presence of cash flows that do not meet the strict definition of principal or interest. The ED does not permit consideration of the significance and probability of cash flows that are not solely payments of principal or interest. Therefore, the proposed amendments do not appropriately convey the principle associated with the contractual characteristics assessment. We believe that if the business model for the instrument supports FV-OCI or AC classification and measurement and that **substantially all** the cash flows of the instrument are payments of principal and interest, then FV-OCI or AC classification and measurement should be permitted.

Question 5: *The proposed amendments define principal as the amount transferred by the holder at initial recognition. Should the definition of principal be expanded to include repayment of the principal amount at maturity or other settlement? If so, what instruments would fail (or pass) the contractual cash flow characteristics criterion as a result of this change?*

Response 5: The definition of principal should be expanded to include repayments of the par value or the face amount of the instrument upon maturity or other settlement. Under the proposed ED, instruments purchased at a discount, may be precluded from FV-OCI or AC classification and measurement due to the possibility that a prepayment may result in cash flows that do not substantially represent unpaid amounts of principal and interest. Specifically, if a financial asset with a make-whole prepayment feature was purchased at a discount, the possibility that the security could be repaid at par value may result in a determination that the prepayment amount does not substantially represent unpaid amounts of principal and interest depending on the size of the discount at initial recognition. We believe that instruments purchased at a discount which are held to collect contractual cash flows should pass the CCFC.

Question 6: *Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?*

Response 6: We believe that the application guidance and illustrations should incorporate some or all the issues we have discussed above in the cover letter and in our responses to questions 4 and 5.

Question 7: *Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?*

Response 7: We agree that contractual terms that modify the relationship between principal and interest may still contain payments of solely principal and interest if the cash flows are not more than insignificantly different from benchmark cash flows.

Question 8: *Do the proposed amendments contain sufficient application guidance in paragraphs 825-10-55-17 through 55-20 on assessing a modified economic relationship? If not, why?*

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Response 8: We believe that the proposed guidance contains sufficient application guidance for assessing a modified economic relationship.

Question 9: *For beneficial interests in securitized financial assets, the proposed amendments would require an entity to look through to the underlying pool of instruments in determining whether the tranche contains payments of solely principal and interest. Do you agree with this look-through approach? If not, why? What would you propose instead?*

Response 9: We disagree with the look-through approach. We believe this overcomplicates the classification and measurement assessment for beneficial interests, imposes an undue burden on the preparer to obtain sufficient support for an assessment on the underlying assets and has inherent auditability difficulties. In addition, we do not believe that beneficial interests with higher credit risk than the underlying assets should automatically default to FV-NI if they otherwise pass the CCFC and business model assessments for FV-OCI classification and measurement. We believe if the contractual terms of the beneficial interest give rise to cash flows that substantially represent payments of principal and interest and the business model is both to hold to collect cash flows and to sell financial assets, then the beneficial interest should qualify for FV-OCI classification and measurement. We appreciate the Board's concerns as expressed in the Basis of Conclusions section of the ED, regarding the importance of avoiding structuring opportunities and certain junior tranches qualifying for AC classification and measurement, however, this concern is not applicable when the business model is both to hold to collect cash flows and to sell financial assets. The separate application guidance currently proposed for these securities is inconsistent with a principles-based model, could reduce comparability between debt securities with similar credit risk, and adds an unnecessary complication to the guidance.

Question 10: *Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?*

Response 10: Yes, we agree that the proposed amendments appropriately convey the principle associated with the business model assessment.

Question 11: *Do the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the proposed guidance provided to describe those business models? If not, why?*

Response 11: The proposed amendments provide sufficient application guidance and we agree with the proposed guidance provided to describe the business models.

Question 12: *Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?*

Response 12: We believe the model should rely on the principle and exercise of professional judgment. However, although there is no notion of tainting included in the proposed guidance, in practice, auditors will most likely hold companies to a standard where tainting exists. It will be challenging to justify the sale of an AC asset prior to significant deterioration in the issuer's creditworthiness occurring in order to maximize cash flows.

Question 13: *The proposed amendments would require loan commitments, a revolving line of credit, or a commercial letter of credit (the potential creditor) to be measured on the basis of the likelihood of exercise of the commitment and the classification of the underlying loan that would be made upon exercise of the commitment. Do you agree with the proposed classification of loan commitments? If not, why? What would you propose instead?*

Response 13: We agree that loan commitments should be classified consistently with the classification of the underlying loans.

Initial Measurement

Question 14: *Do you agree with the initial measurement principles for financial instruments? If not, why?*

Response 14: We agree with the initial measurement principles as laid out in the proposed standard.

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Question 15: *The proposed amendments would eliminate the unconditional fair value option (for financial instruments within the scope of this proposed guidance) in existing U.S. GAAP and, instead, permit an entity to elect to measure at fair value, with all changes in fair value recognized in net income, all of the following:*

- a. *A group of financial assets and financial liabilities if the entity both:*
 - o *Manages the net exposure relating to those financial assets and financial liabilities (which may be derivative instruments) on a fair value basis*
 - o *Provides information on that basis to the reporting entity's management.*
- b. *Hybrid financial liabilities that meet certain prescribed criteria.*
- c. *Financial assets that meet the CCFC criterion and are managed within a business model that has the objective of both holding financial assets to collect contractual cash flows and selling financial assets (in accordance with paragraph 825-10-25-25(b)).*

Do these options provide decision-useful information? If not, why?

Response 15: We believe that allowing a fair value option in the aforementioned examples provides decision-useful information.

Subsequent Measurement

Question 16: *Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?*

Response 16: We agree with the subsequent measurement of financial liabilities at AC, unless certain exceptions are met.

Question 17: *The proposed amendments would require a nonrecourse financial liability that is settled with only the cash flows from the related financial assets (see paragraph 825-10-35-11) to be measured on the same basis as those assets. Do you agree with the proposed amendments? If not, why? What would you propose instead?*

Response 17: We agree with the proposal to measure nonrecourse financial liabilities on the same basis as their related financial assets if those liabilities are settled with the cash flows from those assets.

Question 18: *The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain, until the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?*

Response 18: We agree with the proposed guidance regarding financial assets measured at AC that are subsequently identified for sale. Specifically, we agree that once an entity intends to sell an asset it should be required to recognize a loss equal to the full difference between amortized cost and fair value. In addition, we believe this guidance should be expanded to include assets classified and measured at FV-OCI which are subsequently identified for sale. We believe that any impairment that exists at the point an asset is identified for sale should be reflected in net income, consistent with current guidance.

Question 19: *The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?*

Response 19: We agree with the use of the practicability exception and the one-step impairment model.

Question 20: *Should an entity evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income separately from the other deferred tax assets of the entity (rather than combined and analyzed together)? If not, why?*

Response 20: We agree that an entity should separately evaluate valuation allowances on deferred tax assets related to debt instruments measured at FV-OCI with qualifying changes running through OCI.

Question 21: *Under the amendments in this proposed Update, hybrid financial assets would not be required to be analyzed for bifurcation under Subtopic 815-15 and would be assessed in their entirety on the basis of the proposed classification requirements. In contrast, hybrid financial liabilities would be assessed for bifurcation and separate accounting under Subtopic 815-15, and the financial liability host contract would be subject to the proposed amendments. Do you agree with this proposal? If not, why? What would you propose instead?*

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Response 21: We agree with the proposal that hybrid financial liabilities should be assessed for bifurcation and subject to separate accounting.

Question 22: *The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?*

Response 22: We agree that when a change in the business model of a financial asset occurs, that the asset should be reclassified on the date of the change. The subsequent accounting for the financial asset under the proposed standard appropriately reflects the change in business model. When changing to FV-OCI it is appropriate for the change to run through OCI, when changing to FV-NI it is appropriate that the change goes through income and when changing to AC it is appropriate to establish a carrying value that reflects current fair value.

Presentation

Question 26: *The proposed amendments would require an entity to separately recognize in net income changes in fair value attributable to foreign currency gain or loss on foreign-currency-denominated debt securities measured at fair value through other comprehensive income (see paragraphs 825-10-45-14 through 45-15). Is the proposed fair-value-based method provided for computing the foreign currency gain or loss component operable? If not, why? What would you propose instead?*

Response 26: We agree with the proposed amendments that would require an entity to separately recognize changes in fair value attributable to foreign currency gain or loss on a FV-OCI financial instrument through net income.

Disclosures

Question 29: *Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?*

Response 29: With respect to the proposed disclosures, we recognize the challenge the Board faces in striking an appropriate balance between providing decision-useful information to financial statement users and monitoring the cost to preparers. In reviewing the proposed disclosure requirements we evaluated the decision-usefulness of the additional disclosure compared to the added complexity.

We challenge the value of the proposed disclosures related to sales of FV-OCI instruments, which include the proceeds from the sale, realized gross gains, realized gross losses, and net unrealized gains/losses previously recognized in OCI related to the sold instruments. The disclosures currently contained within our financial statements contain sufficient detail for our users to assess the performance of our financial assets, including cash flows related to purchases, sales, maturities, calls and redemptions, and unrealized and realized gains/losses by security type.

Transition and Open Effective Date Information

Question 30: *Should an entity be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option under the proposed requirements? If not, why?*

Response 30: We agree that early adoption should only be allowed for instrument-specific credit risk for hybrid financial liabilities. Permitting early adoption for other components would adversely impact the comparability of financial statements.

Question 31: *Should the effective date be the same for both public entities and nonpublic entities?*

Response 31: We agree that public and private companies should have the same effective date.

Question 32: *How much time is needed to implement the proposed guidance?*

Response 32: We believe from the date of issuance of a final standard, we would need at least two years to implement the proposed guidance given the size of our investment portfolio, the required analysis, and the documentation required under the proposed standard.

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Question 33: *Are the transition provisions in this proposed Update operable? If not, why?*

Response 33: We believe the transition provisions are operable.

Equity Method Accounting

Question 34: *The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?*

Response 34: Yes, the proposed indicators and conditions for held for sale equity method investments appear operable.

Question 35: *The proposed amendments would change the current two-step impairment model for equity method investments to a one-step impairment model for all equity investments. Do you agree with the proposed one-step equity impairment model? If not, why? What would you propose instead?*

Response 35: We agree with the one-step impairment model for equity investments.

Question 36: *Do you agree that the current portfolio-wide option for not-for-profit entities, other than health care entities, to account for their equity method investments at fair value should be retained? If not, why? Should that option also be made available to not-for-profit health care entities that are within the scope of Topic 954, Health Care Entities?*

Response 36: We are not a not-for-profit entity, so we have not provided a response to this question.

Nonfinancial Hybrid Instruments

Question 37: *The proposed amendments would eliminate the fair value option for hybrid nonfinancial instruments in current U.S. GAAP and would provide a new fair value option for hybrid nonfinancial liabilities. For a hybrid nonfinancial liability, an entity would apply the bifurcation and separate accounting requirements in Subtopic 815-15 and account for the embedded derivative in accordance with Topic 815. The financial liability host that results from separation of the nonfinancial embedded derivative would be subject to the proposed amendments. However, an entity would be permitted to initially and subsequently measure the entire hybrid nonfinancial liability at fair value (with changes in fair value recognized in net income) if after applying Subtopic 815-15 the entity determines that an embedded derivative that requires bifurcation and separate accounting exists. In contrast, for a hybrid nonfinancial asset the proposed amendments would require the hybrid contract to be measured at fair value (with changes in fair value recognized in net income) if the hybrid nonfinancial asset contains an embedded derivative that would have required bifurcation and separate accounting under Subtopic 815-15. Do you agree with the proposed amendments? If not, why? What would you propose instead?*

Response 37: We agree with the proposed guidance for a new fair value option for hybrid nonfinancial assets and liabilities.