



**Protective Life Corporation**  
Post Office Box 2606  
Birmingham, AL 35202  
Phone 205 268-1000

**Steven G. Walker**  
Senior Vice President, Controller  
and Chief Accounting Officer  
205-268-6775  
Fax: 205-268-3541  
Toll Free 800-866-3555  
Email: steve.walker@protective.com

May 15, 2013

Technical Director  
File Reference No. 2013-220  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Financial Accounting Standards Board:

Protective Life Corporation (the “Company” or “Protective”) appreciates the opportunity to comment on the “Financial Instruments-Overall: Recognition and Measurement (Subtopic 825-10) - Exposure Draft” (“ED”) issued February 14, 2013. Protective, through its subsidiaries, is a group of domestic insurance companies that market retirement savings, investment, and asset protection products such as life insurance, annuities, guaranteed investment contracts, funding agreements, credit insurance and extended service contracts.

The stated goal of the proposed guidance is to provide users of financial statements with more decision-useful information about an entity’s involvement in financial instruments, while reducing the complexity in accounting for those instruments. We believe parts of this proposal achieve the goal of providing more decision-useful information; however, changes are needed to provide the best information and reduce complexity. In addition, certain aspects of the proposal are rules-based and prescriptive, moving away from the Board’s focus of issuing principles-based standards.

We discuss some specific concerns below, and have included an Appendix section where we address some of the questions noted in the proposal.

## **Specific Concerns**

### **Cash Flow Characteristics Test and Business Model Assessment**

#### ***Solely Payment of Principal and Interest Test (SPPI)***

As stated above, we believe certain aspects of the proposal are more rules-based and prescriptive than is necessary. An example is the cash flow characteristics SPPI test, along with the related application guidance. The SPPI test contains specific guidelines that must be met, and which could cause some financial instruments with de minimis non-SPPI elements to fail the test. The SPPI test, if failed, results in financial instruments that are held at fair value with all changes in fair value recognized in net income (FV-NI). We believe the Board should consider eliminating the cash flow characteristics test and instead focus on the business model assessment. However, if the Board decides to keep the cash flow characteristics test it should be modified to require primarily, not solely, payments of principal and interest. This modification would be more principles-based and would limit instances of insignificant contractual features causing a financial

instrument to fail the cash flow characteristics test. For example, we originate commercial mortgage loans with provisions that allow us to share in the performance of the underlying property in certain limited circumstances. These “participation features”, regardless of significance, could cause certain mortgage loans to fail the SPPI test and be carried at FV-NI.

### ***Business Model Assessment***

In the current proposal, no consideration is given to the business model in which the instrument is held if it does not pass the SPPI test. We believe the business model assessment should be the main driver and benchmark for recognition and measurement. As a life insurance company, we are in the business of underwriting risks over long periods. We manage our financial assets to fulfill these long-term obligations to policyholders, rather than to gain profits through changes in fair value of financial assets and liabilities. Further, in order to meet our policyholder obligations we invest in a wide array of financial assets to achieve a well-diversified investment portfolio that ensures long-term stable revenue and matching of assets with liabilities. The Board accurately describes the business model for insurers as Held-to-Collect Contractual Cash Flows and Sell within the proposal in paragraphs 825-10-55-84 and 825-10-55-85. We believe it is important for this business model assessment to be applied to all of our financial assets – not just those that first pass the SPPI test.

### ***FV-OCI Option***

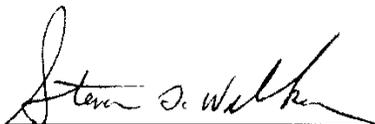
If the Board elects to keep the cash flow characteristics test and business model assessment in place, a FV-OCI option should be available when measuring assets at FV-OCI would reduce or mitigate an accounting mismatch regardless of the cash flow characteristics or business model. Under the current proposal, there are certain instances where assets supporting insurance contract liabilities may be measured at FV-NI where FV-OCI would provide operating results more consistent with the business model. This FV-OCI option would effectively be limited to assets backing liabilities in the scope of the insurance contracts standard and where changes in the discount rate are recorded in Other Comprehensive Income. This would provide more relevant and useful information to financial statement users.

### **Effective Date**

We encourage the Board to align the effective dates for the Financial Instruments and Insurance Contracts projects for insurers. It is important for insurers and other impacted companies to have an appropriate amount of time to assess the full impact of these interrelated projects. If the Board proceeds with the Financial Instrument project without regard to the Insurance Contracts project, we believe a minimum of two years will be needed to implement this proposal.

The following Appendix provides answers to selected exposure draft questions. We appreciate the opportunity to comment on the proposed standard. If you have any questions regarding this letter or wish to discuss further, please contact me at (205) 268-6775 or Charles Evers, Vice President, Corporate Accounting (responsible for accounting policy matters) at (205) 268-3596.

Sincerely,



Steven G. Walker  
Senior Vice President, Controller and  
Chief Accounting Officer  
Protective Life Corporation

## APPENDIX - QUESTIONS FOR RESPONDENTS

### Recognition

#### Questions for All Respondents

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

We believe certain aspects of the proposal are more rules-based and prescriptive than is necessary. An example is the cash flow characteristics SPPI test, along with the related application guidance. The SPPI test contains specific guidelines that must be met, and which could cause some financial instruments with de minimis non-SPPI elements to fail the test. The SPPI test, if failed, results in financial instruments that are held at fair value with all changes in fair value recognized in net income (FV-NI). We believe the Board should consider eliminating the cash flow characteristics test and instead focus on the business model assessment. However, if the Board decides to keep the cash flow characteristics test it should be modified to require primarily, not solely, payments of principal and interest. This modification would be more principles-based and would limit instances of minor contractual features causing a financial instrument to fail the cash flow characteristics test. For example, we originate commercial mortgage loans with provisions that allow us to share in the performance of the underlying property in certain limited circumstances. These “participation features”, regardless of significance, could cause certain mortgage loans to fail the SPPI test and be carried at FV-NI.

**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?**

We believe the benchmark cash flow test cited in question 7 above is an example of the overly prescriptive requirements outlined in the proposed amendments. As noted above, the specific guidelines that must be met cause some financial instruments with de minimis non-SPPI elements to fail the test.

**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?**

We believe the look-through approach outlined above would create undue complexity and operational difficulties, particularly in the case of insurers. We believe this requirement is another example of the overly prescriptive nature of the SPPI test and related application and instrument specific guidance. We encourage the Board to consider eliminating the cash flow characteristics test and instead focus on the business model assessment. However, if the Board decides to keep the cash flow characteristics test it should be modified to require primarily, not solely, payments of principal and interest. This modification would be more principles-based and would limit instances of minor contractual features causing a financial instrument to fail the cash flow characteristics test.

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

In the current proposal, no consideration is given to the business model in which the instrument is held if it does not pass the SPPI test. We believe the business model assessment should be the main driver and

benchmark for recognition and measurement. As a life insurance company, we are in the business of underwriting risks over long periods. We manage our financial assets to firmly fulfill the obligations to policyholders, instead of gaining profits through changes in fair value of financial assets and liabilities. Further, in order to meet our policyholder obligations we invest in a wide array of financial assets to achieve a well-diversified investment portfolio that ensures long-term stable revenue and matching of assets with liabilities. The Board accurately describes the business model for insurers as Held-to-Collect Contractual Cash Flows and Sell within the proposal at paragraphs 825-10-55-84 and 825-10-55-85. We believe it is important for this business model assessment to be applied to all of our financial assets not just those that first pass the SPPI test.

**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?**

We believe the proposed amendments provide sufficient application guidance and illustrations in relation to the Hold-to-Collect and Sell model. As stated above, we believe the Board accurately describes the business model for insurers as Held-to-Collect Contractual Cash Flows and Sell within the proposal at paragraphs 825-10-55-84 and 825-10-55-85. We believe it is important for this business model assessment to be available to all of our financial assets not just those that pass the SPPI test.

We have some concern with the application guidance related with the Hold-to-Collect model used to classify a financial asset at Amortized Cost (AC). We believe the proposed application guidance is overly prescriptive. We recommend the Board use similar application guidance for the AC business model that was used in the most recent proposed amendments to IFRS 9 where sales that are frequent but not significant as well as sales that are significant but infrequent could still be consistent with the Amortized Cost business model.

**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?**

We believe the proposal should be principles-based, relying on professional judgment and should not contain any explicit tainting notion provisions.

#### **Questions for Preparers and Auditors**

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

We encourage the Board to align the effective dates for the Financial Instruments and Insurance Contracts projects for insurers. It is important for insurers and other impacted companies to have an appropriate amount of time and opportunity to assess the full impact of these interrelated projects. If the Board proceeds with the Financial Instrument project without regard to the Insurance Contracts project, we believe a minimum of two years will be needed to implement this proposal.