



THE CHUBB CORPORATION

15 Mountain View Road, Warren, New Jersey 07059

May 20, 2013

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:

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 - Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. At March 31, 2013, the Corporation held \$44 billion of invested assets and had \$4 billion of outstanding long term debt. Accordingly, this proposed ASU would affect the Corporation's financial statements.

We support the efforts of the Board to provide financial statement users with decision-useful information about an entity's involvement in financial instruments and to reduce the complexity in accounting for those financial instruments. We agree that the classification and measurement of financial assets should be determined based on the entity's business model, consistent with the way such assets are managed. However, the method proposed by the ASU to determine the classification and measurement of a financial asset is more complex than the current accounting model. The contractual cash flow characteristics criterion as proposed in the ASU would require a more extensive review of the terms of each individual security and could result in the classification of some investments in a manner inconsistent with our business model. We expect that adoption of the guidance as proposed would result in significant implementation and ongoing costs without improving the information currently provided to the users of financial statements.

Classification and Measurement of Financial Assets

We agree with the Board and support the three measurement categories included in the proposal. The three measurement categories (amortized cost, fair value with qualifying changes recognized in other comprehensive income (FV-OCI) and fair value with all changes in value recognized in net income (FV-NI)) included in the exposure draft should sufficiently address the different business models of entities holding financial instruments. While we agree with the three measurement categories within the proposal, we are concerned with aspects of the proposed guidance, including the classification and measurement criteria.

As a P&C insurer, our business model is to underwrite and manage a variety of insurance risks while managing our investment portfolio to produce an appropriate return and ensure that funds will be available to meet our insurance obligations. Our business model is generally to purchase and hold debt securities to collect the contractual cash flows; however, there are circumstances when it is prudent to sell debt securities to respond to market factors. We also purchase equity securities that we generally hold over an extended time horizon, that often provide current cash flows and that we purchase with the expectation of capital appreciation. If we were to apply the guidance in the proposed ASU, a portion of our debt securities and all of our equity securities would be required to be classified in the FV-NI category which we think is inappropriate given our business model. The type of financial assets that we hold in support of our business operations should be eligible to be classified in the FV-OCI category.

The ASU proposes that the contractual cash flow characteristics criterion and the entity's business model for managing such assets criterion should be considered in determining the initial recognition and subsequent measurement of each financial asset. As proposed, in order to be considered for any treatment other than FV-NI, a narrow contractual cash flow characteristics criterion must first be met, followed by consideration of the entity's business model for managing such assets. We suggest that the primary consideration for classification and measurement of financial assets should be the entity's business model and that the Board should consider criteria similar to the criteria included in current U.S. GAAP under *ASC 815-15 Derivatives and Hedging - Embedded Derivatives* to identify those investments requiring measurement and classification as FV-NI.

As proposed, the contractual cash flow characteristics criterion would expand the degree of detailed evaluation for each financial instrument required to determine the appropriate classification and measurement and would result in a portion of our financial instruments currently classified as FV-OCI being classified in the FV-NI category. We believe that only those instruments which include features that are not considered "clearly and closely" related to the host instrument, as defined in *ASC 815-15 Derivatives and Hedging - Embedded Derivatives*, should be classified in their entirety in the FV-NI category. Utilizing well understood and tested concepts from ASC 815-15 would allow reporting

entities to minimize granular and costly evaluation of other contractual terms that are often customary in various, even plain vanilla, financial instruments. These other contractual terms would include make whole provisions and protective rights such as prepayment penalties or calls held by the borrower.

If the Board proceeds with the contractual cash flow characteristics criterion as proposed, we recommend a broader consideration of the significance of contractual terms. Such broader consideration of significance would limit the population of financial instruments that would require extensive detailed review to determine the appropriate classification and measurement. The proposed guidance states that a modified economic relationship that results in a more than insignificant difference in cash flows fails the cash flow characteristics test, since the cash flows do not represent solely the payment of principal and interest. The criterion should be modified. We believe the concept of determining if the contractual cash flows are substantially the same as solely the payment of principal and interest is more readily understandable than determining if they are more than insignificantly different. If the business model for the financial instrument supports FV-OCI classification and measurement and the cash flows of the financial instrument are substantially the same as solely the payment of principal and interest, then FV-OCI treatment should be permitted.

Equity Investments

The FV-OCI measurement category should be available for equity investments measured at fair value based on an entity's business model. We believe it is possible to have a business model under which equity investments are held for current dividend returns and/or capital appreciation over a longer time horizon and not held to capture short term changes in value. Measurement of all equity securities in the FV-NI category and the periodic recognition of appreciation or depreciation of equity securities in the income statement would be inconsistent with our business model for investing in equity security investments. Including periodic mark-to-market changes of equity securities in the results of operations of an entity would be misleading to the users of financial information.

Equity Method Investments

We agree with the Board's conclusion to maintain the current U.S. GAAP accounting principles for equity method investments. The proposal includes a requirement that equity method investments considered held for sale be measured at FV-NI, in the event the investor has identified a potential exit strategy. We expect that the held for sale criteria in the proposed ASU was not meant to capture investments that have limited lives or "sunset provisions," such as those provisions included in the agreements governing certain private equity limited partnership investments. We request that the Board clarify that it was not its intention to include those investments with limited lives to be considered "held for sale."

Financial Liabilities

We agree with the Board's proposal to measure substantially all financial liabilities at amortized cost.

Effective Dates

The effective dates have yet to be determined for the proposed ASU and are dependent on feedback received, but we believe that the Board should attempt to make the effective date of this proposal concurrent with the effective date of the Board's proposed ASU, *Financial Instruments-Credit Losses (Subtopic 825-15)*. Adopting these two proposed changes to the financial instruments guidance at the same time would assist in the efficiency of the transition.

Conclusion

We believe that the proposed ASU contains appropriate classification and measurement categories and an overall business model framework that is workable. However, the cash flow characteristics test is complex, will require extensive review of the terms of each individual security acquired and could result in classification of some investments in a manner inconsistent with an entity's business model. Adoption of the guidance would result in significant implementation and ongoing costs.

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