PROGRESSIVE"

May 31, 2013

Ms. Susan Cosper, Technical Director File Reference No. 2012-260 Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Subject: Exposure Draft for Financial Instruments – Credit Losses (Subtopic 825-15)

Introduction and Summary

The Progressive Corporation, through its insurance subsidiaries, is ranked fourth in market share in the U.S. private passenger auto market based on net premiums written. We have reviewed the exposure draft for Financial Instruments – Credit Losses (Subtopic 825-15)("Update"). We appreciate the efforts that the board has undertaken to address impairment recognition as well as providing registrants an opportunity to comment on the proposal.

We would, however, like to reiterate our views that the current accounting guidance provided in Accounting Standards Codification 320 should be retained for debt securities. We believe that the current model provides the most meaningful representation of credit loss exposures based on actual events that have occurred applying a "best estimate" approach, which is well understood and, from our perspective, has worked effectively under a variety of financial market conditions, including the most recent financial crisis.

To the extent the FASB continues to go down the path of the Current Expected Credit Loss (CECL) model, we have the following comments:

- for debt securities, the current guidance is a more appropriate and meaningful presentation of impairment recognition; introducing more forward looking information in evaluating impairment, as proposed in the Update, would be highly subjective and diminish comparability;
- implementing a two model approach will require a significant amount of additional operational effort, without
 providing additional benefit, and will also create difficulty in defending and auditing the results due to the
 subjectivity of applying probability weighting;
- the practical expedient should be modified to replace "AND" with "OR" and should apply to
 - o debt securities where the fair value is greater than amortized cost (i.e., gain position), "OR"
 - o to the extent that fair value is less than amortized cost (as the case may be if interest rates rise or credit spreads widen), where the expected credit losses are insignificant.
- the disclosure requirement related to the practical expedient should only apply to those securities where the loss
 is deemed to be material to the debt security but the credit impairment portion of the loss is deemed insignificant;
- many of the disclosure requirements are onerous and would not enhance the readers understanding of the financial statements; and,
- the effective date of this Update should be aligned with the Update relating to the Classification and Measurement Exposure Draft and the time required for vendors to implement required changes into their investment accounting software systems, primarily relating to the use of an allowance account.

Below are our additional views relating to certain questions that were posed in the exposure draft.

Questions for Respondents

Scope

Question for All Respondents

Question 1: Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

We believe that actively marketed debt instrument (debt securities) should be excluded from the scope of this proposed Update. The proposed model creates unnecessary subjectivity and complexity regarding evaluation of potential future issuer credit worthiness and general market events.

Given the assumption that the capital markets are efficient and operating effectively requires that debt securities be priced (valued and evaluated) based on, among other things, current economic factors and an issuer's credit standing, as well as, their likelihood of repaying the issued debt in full. We believe that this effective/efficient market is the very principle that makes the current impairment modeling guidance effective for debt securities. To move away from the current impairment modeling implies that the registrant has more and better knowledge of potential future credit events for an active financial asset than the market. We believe the proposed modeling criteria using future projections has the potential to over/understate the level of potential impairment with respect to a given asset, which in turn deteriorates the overall quality of the information presented within the financial statements.

In addition, by using internally developed future projections of potential credit events, subjectivity by the registrant actually becomes a larger component of whether impairment recognition occurs as well as the size of the impairment. The myriad of potential future events can create alarmingly different projections and, therefore, widely diverse recognition of expected credit losses by the registrant. This in turn actually deteriorates, rather than enhances, the comparability of results among registrant results. By maintaining the current guidance with respect to recognizing impairment for debt securities, models are based on a best estimate from management, which typically focuses on market expected loss parameters.

We also believe that debt securities whose fair value exceeds its cost basis (i.e., gain position) should not be within the scope of the proposed Update based on the following:

- credit impairment analysis and recognition should be concerned with those debt securities for which the
 registrant is not expected to recover a significant portion of its original investment at either sale, maturity or
 other redemption,
- analysis of gain position on debt securities creates an excessive review burden to the registrant, which can detract from the effectiveness of the impairment analysis required for assets in a loss position,
- additional review can lead to artificial loss scenarios that negatively impact the information presented in the financial statements, and
- efficient/effective market principles imply that market participants are aware of potential credit issues with respect to debt securities and, therefore, those assets priced in a gain position are expected to have little to no expected future credit losses; to create impairment models for gain position debt securities assumes the registrant has greater knowledge of credit worthiness than the market.

Lastly, we believe that short-term trade receivables should be exempt from the application of the impairment guidance under the proposed Update. While the guidance clearly scopes out short-term trade receivables from the disclosure requirement, it appears to be silent as to the application of the impairment guidance. Based on the definition of short-term receivable as one year or less to collection, we believe that for short-term receivables (e.g., trade and reinsurance), the application of future trends and expectations as well as the two model approach would provide little additional benefit/value to the model that exists today.

Recognition and Measurement Question for Preparers and Auditors

Question 4: The Board has twice considered credit loss models that would permit an entity not to recognize certain expected credit losses. In the January 2011 Supplementary Document, the Board considered a model that would permit an entity not to recognize some credit losses expected to occur beyond the foreseeable future. In the recent discussions on the three-bucket impairment model, the Board considered a model that would permit an entity only to recognize lifetime credit losses for loss events expected to occur within a 12-month horizon. Instead, the proposed amendments would require that at each reporting date an entity recognize an allowance for all expected credit losses. Do you believe that recognizing all expected credit losses provides more decision-useful information than recognizing only some of the expected credit losses? If not, how would you determine which expected credit losses should not be recognized (for example, 12 months or similar foreseeable future horizon, initial recognition threshold, and so forth)?

For debt securities in a significant credit loss position, we believe that an entity should record all reasonably estimable losses.

Question 8: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this approach provides decision-useful information?

Yes, we believe this approach would provide better decision-useful information since we would be writing the security down to our expected discounted cash flow basis.

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

There will likely be both significant operability and auditing concerns as a result of the proposed amendments. It is important that any forecast of a potential future expected loss be able to stand up to scrutiny of an audit and have merit and contain relevant, verifiable information with respect to projections. Introducing forecasted information will lead to greater subjectivity and complexity while at the same time reduce comparability amongst registrants. In addition, this requirement would change the role of accountants to become financial and economic forecasters or, alternatively, require companies to hire individuals with this specific skill set. Further, the use of these projections changes the nature of the financial statements and footnotes by adding significant forward looking forecasts with respect to expected impairments on these financial instruments. Footnotes are intended to provide additional clarification of what is disclosed in the financial statements and has historically not included any forward looking information and, therefore, not subject to the Safe Harbor provisions; Management's Discussion and Analysis is reserved for the views and forecasts of the registrant's management, including any forward looking statements.

Question 11: The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

The two model approach for debt securities provides for a very broad range of possible outcomes which can lead to significant differences for similar books of active assets between registrants, which will result in less comparability. We believe the current loss model for debt securities is sufficient and allows for better comparability since actual incurred events, as well as, market-based assumptions are considered when determining credit losses.

Question 13: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

We believe this guidance should not apply to debt securities because the yield at acquisition reflects market expectations of contractual cash flows expected to be collected and is not an improvement to current GAAP.

Question 14: As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

As discussed above, we do not believe this Update should apply to debt securities.

However, to the extent that debt securities remain in the scope of this Update, we believe the practical expedient should be modified to apply to debt securities where the fair value is greater than amortized cost (i.e., gain position), "OR" to the extent that fair value is less than amortized cost (as the case may be if interest rates rise or credit spreads widen), where the expected credit losses are insignificant.

Disclosures

Questions for Preparers and Auditors

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

In general, we believe the current disclosure proposals in the Update would create considerable operability and audit concerns since many of them would require onerous details and explanations.

Specifically, we have the following recommendations:

- purchased credit impairments are not appropriate for debt instruments and, therefore, the roll forward schedule would not be meaningful;
- the disclosures related to collateralized assets for debt securities should be limited to a discussion of debt securities for which collateral has been significantly eroded and losses are expected;
- disclosures related to an entity's accounting policies and methodologies with respect to the allowance for credit losses should be incorporated into a registrant's Critical Accounting Policy requirements;
- provide the current allowance for credit losses as a parenthetical disclosure on the balance sheet for each asset classification held at fair value in lieu of a roll forward schedule in the footnotes;
- disclose securities for which management has put in non-accrual status or that are past due in payment of
 obligations (principal or interest);
- disclosures related to the practical expedient should only apply to those securities where the loss is deemed to be material to the debt security but the credit impairment portion of the loss is deemed insignificant; and,
- interim disclosures should only be required if there have been significant changes since the annual disclosures were reported.

Implementation Guidance and Illustrations

Questions for All Respondents

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

We believe that if debt securities are included in the scope of this Update, illustrative examples for debt securities should be provided (e.g., beneficial interests in securitized financial assets).

Transition and Effective Date

Question for Preparers and Auditors

Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

We believe additional information on the board's expectations of amounts included in the cumulative-effect adjustment in relation to the establishment of the allowance in the period of adoption is needed before we can conclude whether the transition provision is operable.

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

The effective date of this Update should be aligned with the Update relating to the Classification and Measurement Exposure Draft and the time required for vendors to implement required changes into their investment accounting software systems.

When determining the effective date of this proposed Update, there needs to be recognition that the allowance account is new to debt securities. As a result, current investment accounting software systems do not provide for an allowance for credit impairments on debt securities. The FASB would need to take into consideration the time it will take to implement these changes into the software systems.

Should you have any questions or wish to discuss any of our comments, please contact Jeffrey Basch.

Sincerely,

Jeffrey W. Basch

Chief Accounting Officer

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cc: Brian Charles Domeck Chief Financial Officer