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Francis A. Doyle
President and
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30 October 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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RE: File Reference No. 2013-29 Proposed Accounting Standards Update, – Insurance Contracts (Topic 834)

As the Audit Committee Chairman of Liberty Mutual Holding Company, Inc. (“Liberty Mutual” or “the Company”), I appreciate the opportunity to respond to the FASB’s Proposed Accounting Standards Update (ASU) on Insurance Contracts. I have read the Liberty Mutual comment letter and I am in agreement with the specific points made. I feel that given the extreme changes being proposed by the FASB, it is imperative that I comment as the Chairman of the Audit Committee of the fifth largest property and casualty insurer in the world.

I have significant concerns about the direction the FASB is taking in developing new Insurance Contract accounting guidance, particularly related to the Property & Casualty industry. The current U.S. GAAP accounting model utilized by Liberty Mutual Insurance is a functioning, well-developed set of widely accepted accounting standards that is understood by management, board members and analysts engaged in the industry and I support its continued application. This model should be supplemented through a comprehensive review of current disclosure best practices to address recent stakeholder requests for increased transparency of the significant estimates and judgments made by management in the preparation of an insurer’s financial statements and how they have changed over time. This information is readily available and subject to continuous review by management, the external and internal auditors and the Board.

The industry and investors that I have discussed this matter with echo my opinion that the exposure draft does not represent an improvement to the current U.S. GAAP accounting model. Many of the proposed changes require a continuous recalculation of highly judgmental expectations and trends based on probabilities of widely varying outcomes where there is no limit on the available techniques used to support the calculations. Accordingly comparability will be compromised, stakeholders will be confused by the interim volatility the new standards will produce and the probable acceleration of earnings driven by discounting. At Liberty Mutual, management and board have an intense focus on having sufficient liquidity to manage unlikely but possible events as an integral part of our risk management program. To help policy holders get back on their feet after significant but possible adverse events is why we are in business. However, we focus on the “best estimate” of our claims reserves to evaluate the way our business performs against our strategic intents and industry competitors. It is not in our policyholder’s best interest to focus on quarter to quarter probabilities versus having the assets and liquidity needed to pay claims after any significant adverse events. I have a particular concern over the likely impact of the proposed changes on the rating agencies who over time have built expertise in analyzing and understanding how the industries’ specialized

accounting impacts the balance sheet and reserves set aside to pay future claims and in particular catastrophic events.

As such, I question why the FASB would discard a working model to adopt a new one at a significant cost to implement and maintain - especially when the new model adds greater complexity and subjectivity without the benefits of greater comparability. The current accounting model in ASC 944 – Financial Services–Insurance provides a consistent, proven basis for accounting for short term insurance contracts. I believe we can significantly improve financial reporting by focusing our energies as we are doing at Liberty Mutual on the transparency of critical judgments made at each reporting date without adding significant cost, complexity and interim volatility to the basic financial statements. Liberty Mutual does not have an unlimited amount of IT spend that they can incur. With all of the technology needed in the insurance industry to keep up with the demands of the consumer, to reallocate technology dollars and resources to the implementation of new accounting guidance where the future benefit is not crystal clear does not make sense.

In addition, one of my responsibilities as a member of the Audit Committee is to review the financial results with the Compensation Committee to assist in reaching a conclusion that the company's incentive compensation program rewards consistent year over year performance without adding inappropriate risk. I am concerned with how the changes being proposed will impact management's focus on a "current value" basis and how that change will over time change managements line of sight from what we are trying to accomplish with our multi-year strategic plan versus managing short term volatility. In addition, discounting reserves will likely obscure operating results by factors outside management's control.

As the Company's comment letter is detailed and addresses the critical issues of the Exposure Draft, it is not my intent to rehash them in this letter. There are a couple of issues though that I believe warrant being reiterated by a user of the financial reports. The current proposal around probability weighted analysis assumes a level of outcome identification I have not seen during my 29 years as Vice Chairman at Pricewaterhouse Coopers, 12 years as the CEO of a global manufacturing company or as a member of a large public utilities board where specialized accounting is the basis of financial reporting as well. The proposed changes are very confusing and I do not follow how this will help a user in assessing the financial results. Does it help a user of the financial results to see a company record a significant loss on an impending hurricane that never strikes?

Lastly, Liberty Mutual operates its business with people and processes that have been staffed and time tested to calculate the "best estimate" of future cost to settle policyholder claims. That's how financial management, internal audit, the external auditors and the Board evaluates financial results that we present to our stakeholders. To replace this time tested process with a summary outcome of mathematical models guessing what bad events could happen is taking on a very high risk that our financials will mislead the reader based on a "best guess" of what might happen in the future versus presenting actual results of what did happen over the period of coverage. Furthermore, I have significant concerns about the effects changes will have on our people and our information systems at a time of unprecedented change in the P&C industry. Our Board understands the existing financial information very well and are appropriately focused on changes in the P&C business model, products (just count the ads you see on TV!), mobility, cyber security threats, globalization, climate change, low interest rates, and a host of other future defining changes in our environment. In sum, I am clear on how to evaluate future liabilities based on historical data, loss development triangles and trend driven projections. Recognizing revenue based on the expected timing of incurred claims considering seasonal loss patterns from hurricanes on the east coast, tornadoes in the south, ice storms in the mid-west

and other geographic patterns leaves too much to interpretation and outright guesswork. I have trouble understanding how to identify an infinite number of probabilities knowing full well that future events, such as Hurricane Sandy, may dramatically alter any assumptions that management made in estimating our future cash flows.

In conclusion, I request the FASB revisit the proposed guidance, as the questionable benefits of this Exposure Draft do not outweigh benefits of implementing it. I would be pleased to discuss this matter more fully in person if the Board would find my input helpful.

Sincerely,

A handwritten signature in black ink that reads "Frank Doyle". The signature is written in a cursive, flowing style.

Francis A. Doyle
Audit Committee Chairman
Liberty Mutual Holding Company, Inc.

FAD/kh

Cc: Liberty Mutual Audit Committee Members:
John Doyle, Dennis Langwell, David Long