333 S. Wabash Ave. Chicago IL 60604

Lawrence J. Boysen
Senior Vice President and
Corporate Controller
Telephone 312-822-5653
Email
Lawrence.Boysen@cna.com

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Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2016-330

Dear Ms. Cosper,

CNA Financial Corporation (referred to in this letter as CNA, the Company, we, our, and us) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU), *Financial Services - Insurance (Topic 944) Targeted Improvements to the Accounting for Long-Duration Contracts* (Proposed Update). CNA is the country's eighth largest commercial insurance writer and the fourteenth largest property and casualty company. CNA has non-core business in life and group (L&G) lines of business that are in run-off.

CNA supports the Board's stated primary objectives of improving the recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. We believe that many of the proposals support the Board's objectives; however in our review of the Proposed Update, we identified the following concerns within the proposals.

Under the Proposed Update, insurers would be required to discount their liability for future policy benefits using a high-quality fixed-income instrument yield as described in Topic 715, *Compensation – Retirement Benefits* (Topic 715). While we agree in principle that the use of a high-quality fixed-income instrument yield would provide more comparable financial statements, we believe that the use of A-rated bonds would be a better proxy for a liability discount rate as that rating more closely approximates the cost of capital for insurers.

The Proposed Update requires insurers to retrospectively unlock the net premium ratio from policy issue when cash-flow assumptions change. While the retrospective unlocking approach would result in the purest application of the Proposed Update, we believe the effort and cost required to implement that approach far outweighs the benefit. In addition, we expect that lack of historical information will pose significant impracticability issues for most insurers. For those reasons, we believe prospective application of the Proposed Update should be permitted.

We recently unlocked our cash flow assumptions in connection with loss recognition. Under current guidance, preparers only unlock previous assumptions when there has been significant deterioration in results that requires loss recognition. Under this circumstance, the preparer's net premium ratio exceeded 100%. Since the Proposed Update stipulates that the net premium ratio cannot exceed 100%, we propose that the Board consider an additional practical expedient (if retrospective application continues to be mandated), whereby insurers could, upon adoption and at the level of aggregation at which reserves are calculated, set the net premium ratio at 100%, and only require future retrospective unlocking to consider information obtained from that point. This practical expedient would significantly lower the cost of adoption for preparers who have changed cash flow assumptions in connection with loss recognition. This alternative practical expedient would allow insurers to avoid the significant effort involved in retrieving, analyzing and inputting records for old policies into the system, many of which may have terminated before the current data collection system was used. Due to the lack of retention of data on certain old policies, the practical expedient would also allow preparers to avoid making assumptions and estimates relating to these old policies. At the point of adoption, the population of policies in-force is known and by setting the net premium ratio at 100%, investors receive the benefit of relevant, timely information.

Finally, to avoid confusion, we would encourage the Board to revise ASC 320-10-S99-2 in order to clarify that the adjustment "of other assets and liabilities that would have been adjusted if the unrealized holding gains and losses from securities classified as available-for-sale actually had been realized" should not result in insurers recording what is colloquially referred to as shadow reserves after adoption of the Proposed Update.

Overall, we appreciate the Board's efforts to improve the recognition and measurement of long-duration insurance contracts. The remainder of this letter addresses the questions contained in the exposure draft.

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

Sincerely,

Lawrence J. Boysen

Questions for respondents:

Liability for Future Policy Benefits—Contracts Other Than Participating Contracts

Question 1: Do you agree with the scope of the proposed amendments on the accounting for the liability for future policy benefits for contracts other than participating contracts? If not, what types of contracts, contract features, or transactions should be included in or excluded from the scope and why?

Response 1: We agree that the scope of the Proposed Update is appropriate.

Question 2: Do you agree that the effect of updating cash flow assumptions should be calculated and recognized on a retrospective basis in net income? If not, what other approach or approaches do you recommend and why?

Response 2: As stated above, we believe that for most insurers, the updating of cash flow assumptions would provide better information to investors. However, we believe the lack of historical information will pose significant impracticability issues for most insurers. As a result of the impracticability issues and significant cost and effort required to implement the retrospective recognition, we believe prospective application of the Proposed Update should be permitted.

Should retrospective application continue to be mandated, we would recommend a practical expedient to allow insurers, upon adoption and at the level at which reserves are calculated, to set the net premium ratio to 100% and to allow these insurers to retrospectively unlock only to the point of adoption. This practical expedient would significantly lower the cost of adoption for preparers who have changed cash flow assumptions in connection with loss recognition.

Question 3: Do you agree that cash flow assumptions should be updated on an annual basis, at the same time every year, or more frequently if actual experience or other evidence indicates that earlier assumptions should be revised? If not, what other approach or approaches do you recommend and why?

Response 3: Given the long-term nature of these policies, we agree that updating cash flow assumptions annually would appropriately meet the need of investors for timely reporting, given that one would not expect cash flow assumptions for these long-term policies to significantly change quarter-to-quarter. Given the volume of work required to update assumptions, doing so more than annually would not appropriately match the effort with improvements in information reported.

Question 4: Do you agree that expected future cash flows should be discounted on the basis of a high-quality fixed-income instrument yield that maximizes the use of current market observable inputs? If not, what other approach or approaches do you recommend and why?

Response 4: While we agree that, in principal, use of a high-quality fixed-income instrument yield would result in better comparability across insurers, we do not believe this approach accomplishes the goal of approximating a liability rate for most insurers. A high-quality fixed-income instrument yield, as defined in Topic 715-30, would require insurers to use AA-rated bonds, whereas most insurers are not rated AA by the rating agencies. In order to better reflect the cost of capital for insurers we would recommend discounting the liability using A-rated bonds.

Question 5: Do you agree that the effect of updating discount rate assumptions should be recognized immediately in other comprehensive income? If not, what other approach or approaches do you recommend and why?

Response 5: We agree to the extent that fluctuations in the measurement of the liability are caused by changes in discount rates, these fluctuations should be reported through OCI in order to avoid significant volatility in the income statement. Changes in the discount rate are not reflective of the insurer's performance; therefore, these fluctuations should be reported through OCI.

Question 6: Do you agree that discount rate assumptions should be updated at each reporting date? If not, what other approach or approaches do you recommend and why?

Response 6: We agree that discount rate assumptions should be updated each quarter as this would match the timing of changes in the fair value of the available-for-sale investments that support the long-duration insurance contract business.

Liability for Future Policy Benefits—Contracts Other Than Participating Contracts

Questions 7-12 are not applicable for CNA as we do not have participating policies within the scope of the proposed amendment.

Market Risk Benefits

Questions 13 and 14 are not applicable for CNA as we do not have policies within the scope of market risk benefits.

Deferred Acquisition Costs

Questions 15-17 are not applicable to CNA as we no longer have any deferred acquisition costs within the scope of the proposed amendment.

Presentation and Disclosure

Question 18: Do you agree that the presentation and disclosure requirements included in the proposed amendments would provide decision-useful information? If not, which presentation and/or disclosure requirement or requirements would you change and why?

Response 18: We agree that the proposed presentation and disclosure requirements are useful.

Question 19: Are there any additional presentation or disclosure requirements that would provide decision-useful information? If so, please describe them and explain why.

Response 19: We do not have any other disclosures we would recommend.

Effective Date and Transition

Question 20: The Board is interested in understanding the key drivers affecting the timing of implementation. What are those key drivers, and how do they affect the time it will take to implement the proposed amendments? Should the effective date be the same for both public entities and nonpublic entities?

Response 20: Implementing this standard would require significant effort, not only in obtaining data for old, terminated policies, but also in implementing significant systems upgrades in order to access and appropriately aggregate the required information. In particular, retrospective unlocking, while currently being used by insurers that offer universal life policies, is a new concept to CNA. As a result, it will require a significant effort to update and test our procedures to ensure that we can extract meaningful data timely and accurately. We would expect that this transition would take at least three years after a final standard is issued.

Question 21: Are the proposed transition provisions operable and do they provide decision-useful information? If not, what would you recommend and why?

Response 21: As discussed above, we would propose an additional practical expedient to allow insurers, upon adoption and at the level at which reserves are calculated, to set the net premium ratio to 100%, and to allow these insurers, for future changes to assumptions, to retrospectively unlock only to the point of adoption.

Question 22: Do the proposed transition disclosure requirements provide decision-useful information? If not, what would you recommend and why?

Response 22: We agree that the disclosure requirements are appropriate.

Costs and Complexities

Question 23: Describe the nature of the incremental costs of adopting the proposed amendments, distinguishing between one-time costs and ongoing costs. Explain which aspects of the proposed amendments are driving those costs and include ideas to make the proposals more cost effective.

Response 23: While the standard provides targeted improvements, implementing these improvements would require system upgrades as well as compiling older data. As a result, it will require a significant amount of effort to implement. Particularly, if the standard is adopted as proposed, there would be significant one-time charges related to obtaining data on older, terminated policies or making estimates relating to those policies. These costs would be primarily related to remodeling our policies on legacy systems. This would also require us to hire outside consultants who have the knowledge to change our systems. However, if we were allowed to utilize the practical expedient proposed above, we would not anticipate significant implementation costs.