



March 30, 2009

FASB Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Re: File Reference – Proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments

Dear Technical Director:

Nationwide Insurance Group appreciates the opportunity to comment on the Exposure Draft of the Proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments (Exposure Draft or Proposed FSP). Nationwide Insurance Group (Nationwide) is comprised of three affiliated mutual insurance companies and their subsidiaries under common management. Nationwide is one of the largest diversified insurance and financial services organizations in the world, with more than \$135 billion in assets and annual revenues of \$20 billion.

We agree with the Board's objective to make the other-than-temporary impairment (OTTI) guidance more operational for debt and equity securities. Furthermore, we support the changes that provide better information to financial statement users regarding the impact of credit versus market losses on securities. To strengthen these objectives, we request the inclusion of the following concepts:

- The Proposed FSP and Staff Accounting Bulletin Topic 5M (formerly SAB 59) (SAB 5M) should be revised to remove severity and duration criterion as the practical implications have resulted in firms being forced to utilize "bright-lines" based on severity and duration of unrealized losses regardless of fundamental economic considerations. We request that this criterion be revised to instead focus on judgment and a firm's intent to sell.
- Allow for retrospective application utilizing guidance from the Proposed FSP. Under FAS 154,
 Accounting Changes and Error Corrections (FAS 154) changes in accounting principle are done
 retrospectively to ensure that comparative accounting data is presented. Consistent with this
 theory, our recommendation is a cumulative adjustment to reflect the impact of retrospective
 application of the Proposed FSP to all prior periods.
- The FAS 114 model is one good example of a possible model to determine the credit component
 of OTTI. We suggest clarification that other acceptable methods may be applicable for
 instruments which do not have periodic payments/cash flows such as corporate debt securities.
 Since there are numerous acceptable valuation techniques, we suggest that judgment be allowed
 to determine the most appropriate model based upon facts and circumstances for the applicable
 financial instrument.

- To ease the operational burden of implementing this guidance within the prescribed timeframes, we recommend an interim and annual periods after June 15, 2009 effective date with an option for early adoption as of interim and annual periods after March 15, 2009.
- In addition to the Proposed FSP guidance, we respectfully request that recovery of fair value for previously impaired investments should be immediately recorded in realized gain/loss as opposed to accreted/amortized into net investment income.

See these items included below within our responses to the FASB questions posed in the Exposure Draft.

Question 1. This proposed FSP would require entities to separate (and present separately on the statement of earnings or "performance indicator") an other-than-temporary impairment of a debt security into two components when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. The two components would be (a) the credit component and (b) the noncredit component (residual related to other factors). Does this separate presentation provide decision-useful information?

We support the change to recognize the noncredit portion in other comprehensive income rather than earnings. This modification allows the financial statement user to refocus the determination to expected credit losses as opposed to losses based on market price volatility. This will appropriately align the realization of losses in earnings with an adverse change in cash flows as opposed to fluctuations caused by market driven events. For example, current interpretation would result in an OTTI for investments with unrealized mark to market losses greater than a reasonable duration (auditors are currently applying a 6-9 month standard). This interpretation is even being applied in circumstances where an investment is still receiving contractual cash flows and is expected to fully recover.

While we agree with the separation of impairments into credit components and noncredit components, we do not agree that this information should be presented specifically on the statement of earnings in the manner proposed by the Exposure Draft. Requiring entities to report the gross and net figures clutters the statement of earnings, and its prominent display undermines the purpose of separating the two amounts. This information will be presented in other comprehensive income; therefore, requiring companies to present on the statement of earnings is redundant. If additional attention to this figure is required, it would be more appropriately highlighted in the footnotes to the financials, if material.

Question 2. This proposed FSP would require that the credit component of the other-than temporary impairment of a debt security be determined by the reporting entity using its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument. One way of estimating that amount would be to consider the measurement methodology described in paragraphs 12–16 of FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan. For debt securities that are beneficial interests in securitized financial assets within the scope of Issue 99-20, the amount of the total impairment related to credit losses would be determined considering the guidance in paragraph 12(b) of Issue 99-20. Do you believe this guidance is clear and operational? Do you agree with the requirement to recognize the credit component of an other-thantemporary impairment in income and the remaining portion in other comprehensive income? Under what circumstances should the remaining portion be recognized in earnings?

As noted in question one, we agree with the separation of impairments into credit components and noncredit components. The Board asks if this guidance is clear and operational. We believe that this option is clear, operational and in addition is auditable. We appreciate that the Proposed FSP notes that FAS 114 is just one possible way to determine the credit component which implies that other ways may be appropriate as well. We suggest clarification that other acceptable methods may be applicable for instruments which do not have periodic payments/cash flows such as corporate debt securities. Since there are numerous acceptable valuation techniques, we suggest that judgment be allowed to determine the most appropriate model based upon facts and circumstances for the applicable financial instrument.

In addition to the option to separate credit and noncredit related losses, there should also be the option to include all losses in earnings as a practical expedient. This practical expedient would be useful and allow for efficient application if a company chooses or is not able to determine what losses associated with a security are noncredit related. This expedient would allow entities with varying capabilities or resources to model their cash flows or determine a recovery analysis to be able to adopt the standard by the proposed effective date.

Additionally, the Proposed FSP should include discussion of how to treat the amounts split between other comprehensive income and earnings if in future periods the models are updated. We recommend amounts should move between earnings and other comprehensive income as a change in estimate following the guidance of FAS 154.

Question 3. This proposed FSP modifies the current indicator that, to avoid considering an impairment to be other than temporary, management must assert that it has both the intent and the ability to hold an impaired security for a period of time sufficient to allow for any anticipated recovery in fair value. The Board believes that, compared to current requirements, it is more operational for management to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery. Does this modification make this aspect of the other-than-temporary impairment assessment more operational (the remaining factors discussed in FSP FAS 115-1/FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, would remain unchanged)? Should this modification apply to both debt and equity securities? Will this change result in a significant change to the assessment of whether an equity security is other-than-temporarily impaired?

The current guidance under FAS 115 with its reference to SAB 5M requires an assessment of the severity and duration of unrealized losses in the determination of the ability to hold until full recovery. When modified to conform to the Proposed FSP, SAB 5M should remove these criterion. Given the current market conditions, severity and duration of unrealized losses have made this assertion less relevant in assessing impairments. The practical implications have resulted in firms being forced to utilize "bright-lines" based on severity and duration of unrealized losses regardless of fundamental economic considerations. We request that this criterion be removed so the focus is on the entity's intent to sell. Absent this change, the Proposed Standard will not make applying the impairment guidance more operational and there will not be a significant change in the assessment of whether an equity security is other-than-temporarily impaired.

If this removal is not deemed appropriate, we recommend, at a minimum, that the Proposed FSP should explicitly state that the criteria in SAB 5M is not intended to result in "bright-lines" and that the

number of months a security has been impaired should not be an automatic trigger for recognizing an OTTI.

Additionally, throughout the Proposed FSP, the language needs to be made consistent to avoid confusion in application. For example, the following inconsistencies are noted (emphasis added) and could each be interpreted differently:

- (a) it does not have the intent to sell the security <u>and</u> (b) it is more likely than not that it will not have to sell the security before its recovery (Objective Paragraph 2)
- the entity intends to sell the security <u>or</u> it is more likely than not that an entity <u>will sell</u> the debt or equity security before recovery (Paragraph 12)
- the investor intends to sell the security <u>or</u> it is more likely than not that the investor <u>will be</u> <u>required</u> to sell the security before recovery (Paragraph A3 b)

We recommend that the language in the third bullet point be the basis for the Proposed FSP. Additionally, we recommend that this language be supplemented to 1) convey that the intent to sell the security should be in the foreseeable future and 2) to determine the likelihood that an investor will be required to sell a security, the investor should consider, among other things, whether its cash or working capital requirements and contractual or regulatory obligations indicate that the investment may need to be sold before the forecasted recovery occurs.

Question 4. This proposed FSP would require that the portion of an impairment recognized in other comprehensive income for held-to-maturity securities be amortized (through other comprehensive income) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset (that is, an entity would not be permitted to adjust the fair value of a held-to-maturity security for subsequent recoveries in the fair value of the security similar to the accounting for available-for-sale securities). Do you agree with this requirement?

The held-to-maturity classification is not materially applicable to Nationwide.

Question 5. Is the proposed effective date of interim and annual periods after March 15, 2009, operational?

The Proposed FSP substantially changes the OTTI guidance which can be analogized to FAS 154 and its concepts related to a change in accounting principle. FAS 154 states, "Consistent use of the same accounting principle from one accounting period to another enhances the utility of financial statements for users by facilitating analysis and understanding of comparative accounting data," Consistent with this rationale, prospective adoption only would decrease the utility of financial statements and would result in noncomparative accounting data, in particular for noncredit related components of impairments. Without a cumulative adjustment, entities would be required to track investments under different basis resulting in significant operational and system challenges. Accordingly, our recommendation is a cumulative adjustment to reflect the impact of retrospective application of the Proposed FSP to all prior periods. For example, noncredit related losses recognized in earnings should be removed from retained earnings and recognized in other comprehensive income, to create consistency with the securities impaired after the adoption of the Proposed FSP.

In addition, to ease the operational burden of implementing this guidance within the prescribed timeframes, we recommend an interim and annual periods after June 15, 2009 effective date with an

option for early adoption as of interim and annual periods after March 15, 2009. However, given the magnitude of improvement in financial reporting from the Proposed FSP, we would only support a delayed effective date if a cumulative adjustment is allowed as noted above. If the guidance is restricted to prospective application without a cumulative adjustment, we would support the effective date included in the Proposed FSP.

Additional matters which we believe should be brought to the Board's attention.

We recognize that the FASB has an agenda item to review and re-deliberate on subsequent recoveries of impairments; however, we feel these concepts should be included in the Proposed FSP. Current period OTTI being absorbed in realized gain/loss with the subsequent recovery taken through net investment income results in the potential for users of financial statements to have difficulty determining which components of future operating earnings are due to economic events and which are due to a "reclassification" of realized losses into net investment income. This mismatch is particularly problematic because it creates a situation where the downside (impairment) is recognized in non-operating earnings and the upside (accretion) is recognized in operating earnings.

Therefore, we recommend that any future recoveries for OTTI investments be recorded in the same manner as the original realized loss by being recognized in the same financial statement line. This would include both amounts impaired prior to the effective date of this Proposed FSP and amounts impaired subsequently. Furthermore, the entire expected recovery amount should be recognized within the applicable reporting period that it is identified.

CONCLUSION

Overall, we agree with the Proposed FSP and believe these changes and our additional recommendations will result in better consistency in the determination of OTTI. We hope these comments assist the Board during its redeliberations of the Proposed FSP. In the event that any Board or FASB staff member would like any further clarification of our positions we are available to discuss them in greater detail.

Respectfully,

Martha L. Frye

Senior Vice President and Chief Accounting Officer

Nationwide Insurance