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May 30, 2013

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

BY EMAIL: director@fasb.org

Re: File Reference No. 2013-220 & 2013-221:
Exposure Draft-Financial Instruments – Overall

File Reference No. 2012-260:
Financial Instruments – Credit Losses

Dear Ms. Cospers,

The National Association of Mutual Insurance Companies (“NAMIC”) appreciates the opportunity to provide comments on both the Financial Accounting Standards Board (“Board”) Exposure Drafts (“EDs”), *Financial Instruments-Recognition and Measurement of Financial Assets and Financial Liabilities* (“CMED”) and *Financial Instruments-Credit Losses* (“CLED”). NAMIC is the largest and most diverse property/casualty trade association in the country, with 1,400 regional and local mutual insurance member companies serving more than 135 million auto, home, and business policyholders and writing in excess of \$196 billion in annual premiums that account for 50 percent of the automobile/ homeowners market and 31 percent of the business insurance market. More than 200,000 people are employed by NAMIC member companies.

Classification & Measurement

As an association for providers of property-casualty (“P&C”) insurance, any accounting treatment that mismatches assets with liabilities presents a significant concern to our members. It appears the proposed CMED will result in certain instruments being classified into measurement categories that are inconsistent with the P&C insurance business model.

Accounting mismatching for insurance companies

The overall business model in the insurance industry requires the entity to broadly match its assets with its liabilities. An insurance company’s asset strategy can be extremely complex. It can involve the use of instruments and investments such as derivatives, debt instruments, investment property, mortgage loans and equities.

P&C Insurers’ business strategy often includes holding assets for purposes other than trading or selling in the near term. The new proposal would result in many instruments being measured at fair

value through net income (“FV-NI”). This contradicts the Board’s insurance contract proposal. Under that proposal, changes in the insurance liability arising from changes in discount rates are required to be recognized in other comprehensive income (“OCI”) regardless of the classification and measurement applied to the insurer’s underlying assets. This will result in less relevant and understandable information for financial statement users.

Additionally, the ED does not provide any consideration for the significance of potential cash flows that are not solely payments of principal or interest (“SPPI”). Under the new ED, certain instruments that would otherwise classify as fair value through other comprehensive income (“FV-OCI”) or Amortized Cost (“AC”) classification and measurement, would subsequently be measured at FV-NI due to the presence of cash flows that are not significant and do not meet the strict definition of “solely” payments of principal and interest.

We support an approach that would use the business model to define the criteria for classifying and measuring financial assets at AC or FV-NI and designate FV-OCI as the “default” category. We also recommend the board expands the definition of the SPPI test to include “substantially all” the cash flows of the instrument that are payments of principal and interest.

Credit Losses

The CLED would apply to all financial assets subject to credit losses and not measured at FV-NI, including debt securities, loans and loan commitments, lease and trade receivables, and reinsurance recoverables.

We do not support the approach that proposes the recognition of a credit impairment allowance based on the probability-weighted scenarios (estimating both a possibility of a credit loss or that no credit loss would result) over management’s best estimate based on actual events that have occurred. To calculate the expected loss based on all relevant information at that time, including reasonable and supportable forecasts of the future, adds unnecessary complexity, and we do not feel this would be an improvement over management’s best estimate. We feel this proposal would require more management bias and judgment than the current model as the current model is based on actual, reliable data. Also, as the proposal does not specify any one method to estimate the expected credit losses for the probability-weighted scenarios, the ambiguity could lead to several variations and confusion among users of the financial statements from a lack of consistency.

In the alternative, if the proposed CLED is adopted, we recommend modification to the practical expedient¹ on debt instruments as follows: “no allowance if ~~both the~~ either of the following conditions...” This will reduce the operational burden for instruments where losses are not significant.

The proposed CLED also requires a significant increase in disclosures including both qualitative and quantitative features. Although users of the financial statements may benefit from understanding how an entity derives and uses the information in the expected loss model, we do not believe the cost-benefit of adding these new disclosures would justify that benefit. We believe quarterly disclosures should only be required if significant changes have occurred since year-end.

¹Practical expedient proposed: For FV-OCI financial assets, no allowance required if both the following conditions are met – 1) the fair value of the financial assets is greater than (or equal to) the amortized cost basis and 2) expected credit losses on the financial asset are insignificant.

We further recommend that these proposals be considered in their entirety with an effective date simultaneous with the insurance contract proposal. The alignment of these dates is necessary to avoid confusion on the part of the users given that these standards are all so closely linked.

Thank you for considering our comments. If you have any questions or wish to discuss our comments, please contact me at 317-876-4311.

Sincerely,

Liz Thoman
Accounting Regulation Analyst
National Association of Mutual Insurance Companies
317-876-4311

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