



**D. Keith Bell**

Senior Vice President  
Accounting Policy - Finance  
Plaza Building, 6<sup>th</sup> Floor

(860) 277-0537  
(860) 277-954-3708 (fax)

One Tower Square  
Hartford, CT 06183

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Technical Director – File Reference No. 2019-720  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Via E-mail:

Attn: [director@fasb.org](mailto:director@fasb.org)

File Reference No. 2020-500

Re: FASB Exposure Draft - Concepts Statement No. 8, Conceptual Framework for  
Financial Reporting - Chapter 4: Elements of Financial Statements

Dear Sir or Madam:

The Travelers Companies, Inc. (Travelers) appreciates the opportunity to provide comments on the Financial Accounting Standards Board's (the FASB or the "Board") Exposure Draft - Concepts Statement No. 8, Conceptual Framework for Financial Reporting - Chapter 4: Elements of Financial Statements ("Exposure Draft"). Travelers is a leading provider of commercial, personal and specialty insurance products and services to businesses, government units, associations and individuals. Our diverse business lines offer our customers a wide range of coverage sold primarily through independent agents and brokers.

We appreciate the Board engaging stakeholders in its conceptual framework project and we offer the following comments on the Exposure Draft.

Statement of Financial Accounting Concepts No. 6 ("CON 6") was issued in 1985 and noted that "elements of financial statements are the building blocks with which financial statements are constructed." While Concept Statements are not authoritative standards, they do, however, provide a framework to identify elements of financial statements that could be appropriate for recognition in the financial statements, be relevant to the users of the financial statements, and support the development of new standards and revisions to current standards.

Consistent with CON 6, the main objective of the Exposure Draft is to enhance the understandability of information for users of financial statements. The Board also notes that many of the updates in the Exposure Draft reflect “changes in practices and standards since CON 6 was issued”. The revised definitions provided in the Exposure Draft were made to improve the objectives of CON 6, by providing greater clarity and eliminating terminology that makes definitions “difficult to understand and apply”.

Many of the proposed changes provide clarity for the preparer of the financial statements; however, we believe that certain of the proposed changes will have the opposite effect. Tightening the definitions and removing discussion of the elements may have significant unintended consequences to the financial statements and for its users, including:

- Inconsistent conclusions reached by preparers when a specific transaction is not addressed in the Codification:
  - ✓ As noted in paragraph 3 of the Exposure Draft, when a specific transaction is not addressed in the Codification, financial statement preparers will analogize to the Codification guidance for similar transactions and “then consider non-authoritative guidance from other sources (including Concepts Statements)” to determine how or if to record an accounting transaction. Certain updates and clarifications in the Exposure Draft may result in the financial statement preparers arriving at materially different conclusions.
- Inconsistent meaning of terms among authoritative standards:
  - ✓ If it is the Board’s intent to address any misunderstandings or misapplication of the elements as defined in CON 6 to ensure consistency in application, proposed changes would result in terms having different meanings from CON 6, from the Codification or with regulations under the Securities and Exchange Commission (“SEC”). As such, the definitions have not been clarified but have changed.

**Specific Discussion:**

**Question 5 – Other than as described in Question 4, to allow certain share-settled instruments to be liabilities, the Board expects the liabilities that met the definition of a liability in Concepts Statement 6 will continue to qualify as liabilities under the definition of a liability in this proposed chapter. Do you agree that the definition of a liability in this proposed chapter is consistent with the Board’s assertion? If not, please provide examples.**

The Exposure Draft removes the term “probable” as a characteristic of a liability noting that the term has been misunderstood by preparers and users. We believe the inclusion of the term “probable” is fundamental to the definition, relied upon, used pervasively in Codification and is integral in accounting. Deleting what has become a mainstay of the definition of a liability will result in inconsistency by preparers and confusion for readers.

*We believe “probable” should remain as an essential characteristic of a liability. The removal of the term from the definition changes its meaning:*

- “Probable” is integral in the definition of a liability. It is referenced and/or defined in over 30 Accounting Standard Codification (“ASC” or “Codification”) Topics and in SEC Regulation S-X. Financial statement preparers rely on the term and its meaning to apply the guidance to determine when a potential obligation becomes a liability.
- Removal of the term “probable” will also increase the risk of an inconsistent application of accounting standards. As noted above, if a Concept Statement was applied because Codification does not address a specific transaction, the financial statement preparers may arrive at materially different recognition conclusions, ranging from no liability recognition to unreasonably recognizing a potential obligation before it becomes a liability.

We recommend retaining the concept of “probable” and including additional discussion to address what the Board believes to be a misunderstanding or misapplication of the term.

*“Effects of Uncertainty” discussion is essential to defining a contingent liability.*

The Exposure Draft specifies that “present obligations with uncertain amounts and timing are...contingent liabilities”. “The contingency does not relate to whether a present obligation exists but instead relates to... uncertain events that affect the amount... to settle the present obligation. For these obligations, the fact that the outcome is unknown affects measurement but not the existence of a liability.” In other situations, the uncertainty may not be related to amount or timing, but to whether a liability exists.

Given that business environments can be complex, facts and circumstances of a contingent obligation may not lend itself to a definitive conclusion if the attributes meet the criteria of a present obligation. The Board should consider expanding the discussion to include additional guidance, consider keeping portions of the “Effects of Uncertainty” discussion (paragraphs 44-48) from CON 6 and provide examples to alleviate the risk of inconsistent application by preparers of financial statements when

identifying a contingent liability.

**Question 8 – As described in Question 7, this proposed chapter seeks to distinguish between revenues, expenses, gains, and losses. Do the definitions of and other explanatory language related to revenues, expenses, gains, and losses make the distinction between these elements sufficiently clear?**

We believe that the Exposure Draft provides a conceptual discussion of revenues, expenses, gains and losses. However, the discussion of revenues, expenses, gains and losses in paragraphs E84-E89 may be too prescriptive and may conflict with certain SEC guidance. We offer two suggestions:

- Retain CON 6’s “Characteristics of Revenues” (paragraph 79) that describes revenue results from an “entity’s ongoing major or central operations” and gains and losses (paragraph 84) as a result of “peripheral or incidental transactions”. It is the nature of an entity’s business that should determine what is deemed a revenue or a gain or loss. Definitions under CON 6 align with terms used in Codification guidance as well as rules prescribed under SEC *Regulation S-X* (Title 17 CFR Part §210), specifically Rule §210.4-01(a) - *Form, order, and terminology* which specifies “that financial statements... should use such generally accepted terminology as will best indicate their significance and character” and Rules §210.5 - §210.9, which are industry-specific, and
- Replace paragraph E89 with the explanatory discussion in CON 6, paragraphs 84-88. The explanatory discussion provides additional examples that convey the meaning of each financial element in broader terms and are less prescriptive.

**Question 10 – This proposed chapter was developed on the basis of Concepts Statement 6, though several paragraphs have been removed or adapted. Are any of the paragraphs from Concepts Statement 6 that have been removed in drafting this proposed chapter necessary to keep? If so, why?**

Unfortunately, the absence of a black-lined version of the Exposure Draft impeded our ability to provide a complete response other than what has been suggested above.

## Summary

In summary, we support FASB’s decision to solicit feedback regarding the definitions and essential characteristics of elements of financial statements. We believe the recommendations noted above will provide further clarity and enhance consistency with the Codification and will be useful to both preparers and users of financial statements. We thank you for the opportunity to comment on the Exposure Draft. If you have any

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questions or would like to discuss our comments, please feel free to call me at (860)  
277-0537.

Sincerely,

A handwritten signature in black ink that reads "D. Keith Bell". The signature is written in a cursive style with a large, looped initial "D" and a distinct "Bell" at the end.

D. Keith Bell