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Mr. Lawrence W. Smith
Director TA & I - FSP
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Letter of Comment No: 42
File Reference: EITF03-1
Date Received: 09/30/2004

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RE: Proposed FASB Staff Position – Effective Date of Paragraph 16 of EITF Issue No. 03-1 – *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP EITF 03-1-b or EITF 03-1).

Dear Mr. Smith:

The Chief Financial Officers of eleven leading insurance companies including life insurers, property and casualty insurers, and reinsurers formed the Group of North American Insurance Enterprises (GNAIE) in 2003. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations. All are major participants in the US markets. The goal of GNAIE is to influence international accounting standards to ensure that they result in high quality accounting standards for insurance companies and, to that end, to increase communication between insurers doing business in North America and the International Accounting Standards Board (IASB) and the United States Financial Accounting Standards Board (FASB). GNAIE works to meet its goals through modeling of proposed accounting standards, analysis, comment, and coordination with various end users of financial reports.

We are writing in response to the issuance of FSP EITF 03-1-b and to further emphasize the importance of certain issues outlined in our letter to the FASB dated September 1, 2004. We believe it would be more appropriate for the FASB to delay the effective date of all consensus positions contained within EITF 03-1, as opposed to the limited deferral that would be provided by FSP EITF 03-1-b. Given the commonality of characteristics possessed by securities that fall within the scope of paragraphs 10 (including securities accounted for using the cost method of accounting pursuant to APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*) and 16, together with the potential applicability of any accounting guidance forthcoming from the FSP to investment securities that fall within the scope of both paragraphs 10 and 16 (with only the latter being deferred), we believe it is both necessary and appropriate to delay the implementation of all consensus' contained within EITF 03-1 until such time as all outstanding implementation issues are satisfactorily resolved. For example,

To influence the development of international accounting standards to ensure that they result in robust, high quality standards for insurance enterprises

clarification of a pattern of selling equity securities that call into question an investor's intent to hold other equity securities to a forecasted recovery would avoid numerous practice issues. Without such guidance, many companies are apt to employ an overly aggressive impairment policy that may not be warranted given normal market fluctuations simply to avoid scrutiny from auditors or company stakeholders and a resulting unproductive use of resources. Significant inconsistencies in practice would likely develop.

We believe that any conclusions reached that determine the recognition of paragraph 16 impairments as temporary or other than temporary impairment (OTTI) should apply to securities that fall within the scope of both paragraphs 10 and 16 as the various sources (e.g. interest rates, foreign currency risk, credit spreads, etc.) of immaterial short-term fluctuations in fair value is irrelevant as long as the movements are not normally distributed.

In the absence of a full deferral, reporting entities will be required to apply the consensus' in EITF 03-1 to securities that fall within the scope of paragraph 10, and possibly to certain securities that fall within the scope of paragraph 16 to which the deferral does not apply as of September 30, 2004, before knowing whether critical implementation guidance, which has yet to be deliberated, will be applicable to those securities. This could potentially result in the following negative consequences:

- Applying a separate and dissimilar OTTI impairment standard to securities falling within the scope of paragraph 10 (in relation to that ultimately established for paragraph 16), will in our estimation, create a situation where the relative attractiveness of paragraph 10 securities will be diminished in a manner that would potentially negatively impact both the liquidity and fair value of the classes of securities that are subject to paragraph 10.
- Application of the guidance in paragraph 10 prior to additional deliberation has the potential to alter investment behavior that could have negative economic consequences. For example, applying the existing consensus' in EITF 03-1 to Index Portfolios may result in investors selling equity securities that have unrealized losses (regardless of the materiality of those unrealized losses) that they do not desire to designate an intent to hold on a "quasi permanent" basis. Given the prevalence of Index Portfolios we believe this could have significant negative economic consequences to investors holding equity securities that are part of common indices that have unrealized losses at (or near the end) of any reporting period.
- The lack of sufficient specificity and common understanding as to what debt securities fall within the scope of paragraph 10 as opposed to paragraph 16 creates confusion with respect to what securities would fall within the scope of the delay provided by FSP EITF 03-1-b. Certain interpretations may result in reporting entities recognizing impairment losses in situations where they are unsure about either (or both) the classification of individual securities (i.e. paragraph 10 or 16) and scope (i.e. whether the securities are within the scope of the proposed deferral) but nonetheless desire to maintain the ability to sell such securities at a later date without triggering a tainting event.

Therefore, we ask that the FASB consider expanding the application of FSP EITF 03-1-b to defer the effective date of paragraph 10 as well as paragraph 16 for the reasons enumerated herein. Our primary concern continues to be the potential inconsistent interpretations amongst reporting entities and public accounting firms concerning the application of EITF 03-1 to securities that fall within the scope of paragraph 10, together with the fact that those interpretations may ultimately be



superceded by the guidance in the yet to be deliberated FSP EITF 03-1-a. In that respect, we believe the benefit of applying EITF 03-1 to securities that fall within the scope of paragraph 10 before the resolution of the issues to be addressed in the aforementioned FSP, would not appear to exceed the risk of early application. In addition, we believe if there is no deferral of the application of EITF 03-1 to securities falling within the scope of paragraph 10, the FASB should allow companies a one-time election to re-designate such securities from available-for-sale to trading or held to maturity without triggering a tainting event.

We appreciate your consideration of these issues. Please call me at 212.480.0808 if you would like to further discuss these or related issues.

Very Truly Yours,

A handwritten signature in black ink that reads "Douglas Wm. Barnert". The signature is written in a cursive, flowing style.

Douglas Wm. Barnert,
Executive Director