



**Property Casualty Insurers  
Association of America**

Shaping the Future of American Insurance

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VICE PRESIDENT, FINANCIAL LEGISLATION  
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April 11, 2006

Technical Director—File Reference 1250-001  
Financial Accounting Standards Board  
401 Merritt 7  
P.C. Box 5116  
Norwalk, CT 06856-5116

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The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on the Exposure Draft of the proposed Statement of Financial Accounting Standards on The Fair Value Option for Financial Assets and Financial Liabilities. PCI is the nation's largest full-service property casualty insurance trade association, with over 1,000 members writing over \$184 billion in direct written premiums, over 40 percent of the U.S. property/casualty insurance market. Many of our members are publicly-traded companies that file GAAP financial statements.

PCI does not oppose the basic concept of the fair value option. We strongly urge the Board, however, to exclude insurance liabilities from the scope of this proposed Statement, and cannot support adoption of the proposed Statement if insurance liabilities are eligible for the option.

Fair value accounting for insurance liabilities is neither required nor allowed in most accounting systems, including U.S. GAAP. There is much controversy and little agreement about how to fair value such liabilities, since by their nature there is no deep and liquid market in which they are traded. There are several different concepts about how to calculate risk margins, but none is in widespread use. The issue of whether an insurer's credit standing is relevant to the valuation of its insurance liabilities is extremely controversial. Until guidance can be developed that deals appropriately with these and similar issues, we believe that insurers exercising the option to fair value their liabilities would do so in inconsistent ways, making insurer financial statements less comparable to users. Exercise of the option would likely require those users to restate their results if the Board eventually adopts a revised insurance accounting standard. Finally, insurers that believe fair value accounting for insurance liabilities is not appropriate or that adequate guidance does not yet exist may feel significant competitive pressure to exercise the option anyway, or be disadvantaged if they do not. All of these effects, we believe, will decrease the comparability, reliability and decision-usefulness of general purpose financial statements.

As you are aware, insurance accounting in general is the subject of a modified joint project between the International Accounting Standards Board (IASB) and this Board, in which the IASB has been assigned to develop the original discussion draft. The IASB is at this time making tentative decisions as to how it believes insurance liabilities would be valued on a market-consistent basis. The IASB intends to develop a discussion draft by the end of this year, and we understand that the FASB will begin its work sometime during this period. We also understand that both Boards intend to adopt similar accounting guidance for insurers when the project is complete.

We note that the Board has excluded leases, pensions and other postretirement benefits from the scope of the fair value option, because "the accounting for such fair values for financial assets and financial liabilities should be part of a reconsideration of those areas and should not be affected by the fair value option." For the same reason, PCI urges that the Board amend this exposure draft to exclude insurance liabilities from the scope of the fair value option.

If you have any questions, please contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Step W Broadie". The signature is written in a cursive, flowing style with a period at the end.

Stephen W. Broadie