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October 29, 2004

Mr. Robert H. Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Letter of Comment No: 224
File Reference: EITF03-1A

Dear Mr. Herz:

The Northwestern Mutual Life Insurance Company, its subsidiaries and affiliates offer life, disability, and long-term care insurance, investment products, and advisory services that address client needs for financial protection, capital accumulation and estate preservation and distribution. Founded in 1857, the Company has consistently enjoyed the highest ratings for financial strength from the four major rating agencies. We are among the largest life insurance companies in the United States, as measured by total life premiums, life insurance coverage in force, or total assets.

The Company holds an investment portfolio of more than \$105 billion in diversified bonds, commercial mortgage loans, and equity securities. Approximately 90% of our bond portfolio is investment grade quality, with a significant portion of these holdings invested in US treasury obligations and other AAA rated securities. The bond portfolio is actively managed and thereby is primarily designated as available for sale under FAS 115.

Our active management of these assets includes use of a target for aggregate portfolio duration that mitigates interest rate risk inherent in the relationship between these investments and the long duration liabilities represented by our insurance reserves. Fluctuations in the market value of these fixed income securities, both upward and downward, are common and expected due to either changes in market interest rates or credit spreads associated with a industry sector or asset class.

We were very pleased that the Board has decided to delay the effective date of EITF 03-1 and consider additional comments on all matters referenced therein, particularly the proposed FASB Staff Positions. We respectfully request that the Board consider carefully the views of affected companies such as Northwestern Mutual, including those offered below:

➤ We concur with the FASB staff position that a determination of other-than-temporary impairments should be made at the individual security level, based on management's review of all relevant factors. We do not believe it necessary or appropriate to include in the guidance "bright line" thresholds, whether to define a "minor" diminution in value or other distinctions that are best judged in the context of actual facts and circumstances. To do so is a retreat from the Board's thoughtful commitment to a "principles-based" accounting framework.

➤ We strongly believe that this "impairment" guidance should expressly exclude from its scope declines in market value due solely to changes in market interest rates, sector spreads or general market conditions (as the latter might apply to fluctuations in value for equity securities). The existing requirements of FAS 115 are much more appropriate for such fluctuations, because it captures both upward and downward changes in market value, which is how these common market events actually happen. This is in contrast to adverse credit events for specific securities, which by definition are downward in the first instance and deserve to be "locked-in" from a financial statement perspective if they are considered other-than-temporary in light of the circumstances of that issuer. No "impairment" should be required where it remains probable that the investor will be able to collect all amounts due according to the contractual terms of the debt security, unless a decision has been made to sell the security at an amount below cost.

➤ We believe that the cost and effort necessary to implement the new guidance as proposed would far outweigh any potential benefit to the users of financial statements. Serious practical and administrative difficulties would be encountered by management in performing a requisite quarterly review of all "impaired securities" under the proposed scope. Thousands of highly-rated securities in our own portfolio necessarily decline in value as interest rates rise and would need to be reviewed individually under the proposed guidance. The proposed guidance would also require management to forecast an anticipated recovery date based on estimates of future changes in market interest rates, sector spreads or general market conditions, a practice that would be impractical and highly speculative.

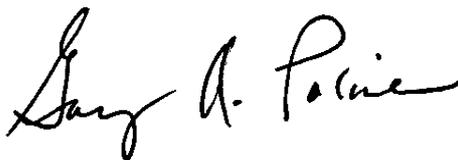
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➤ Investors, regulators, and other interested persons would likely find it more difficult to gain a clear picture of the results of an enterprise's operations under the proposed guidance. The challenges presented to the user of financial statements by the volatility in earnings caused by the initial writedown and subsequent accretion of investment income has been highlighted in recent reports of equity research analysts and rating agencies. One prominent analyst summarized this anomaly by stating that "in a rising interest rate environment, the guidance could have the perverse impact of enhancing investment income, lowering book values, and increasing ROEs." "FAS 115 impacts" are usually excluded from these key investor metrics. Users of financial statements are better served by continuing to isolate the cumulative impact of changes in market value on "available for sale" securities as a separate component of equity and excluding changes therein from the key measurement of periodic net income. This is particularly true when FAS 115 is supplemented with the improved information disclosures now offered by issuers regarding the duration and severity of unrealized gains and losses in their investment portfolios.

➤ Beyond our desire for a sound conceptual accounting framework, EITF 03-1, as originally proposed, will likely have significant and unintended negative consequences on both affected enterprises and the investment markets. If declines in investment value attributable to rising interest rates are reported as "realized losses" that reduce net income, institutional investors are likely to reduce their ownership of fixed-rate, long-duration bonds, and the value of their current holdings may be adversely affected. Since the publication of EITF 03-1, several commentators have cautioned that institutional investors may well change their portfolio management practices, with potentially serious and harmful effects. A recent rating agency report indicated that "the potential increase in earnings volatility ... could adversely affect market confidence in such entities" with adverse credit implications.

Thank you for the opportunity to comment on these very important issues.

Yours very truly,



Gary A. Poliner