



March 2, 2007

Mr. Larry Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 47

Re: File Reference No. 1510-100, Proposed Statement of Financial Accounting Standards, *Disclosures about Derivative Instruments and Hedging Activities*

Dear Mr. Smith:

The Group of North American Insurance Enterprises (“GNAIE”) and the American Council of Life Insurers (“ACLI”) appreciates this opportunity to share our thoughts and comments with you on the Financial Accounting Standards Board’s (“FASB” or “Board”) Proposed Statement of Financial Accounting Standards, *Disclosures about Derivative Instruments and Hedging Activities (the “Exposure Draft” or “ED”)*.

ACLI is the principal trade association of life insurance companies, representing 377 member companies that account for 91 percent of total assets, 90 percent of the life insurance premiums and 95 percent of annuity considerations in the United States. GNAIE consists of Chief Financial Officers of leading insurance companies including life insurers, property and casualty insurers, and reinsurers. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations. Together, GNAIE and ACLI companies represent a significant population of the financial statement preparer community potentially affected by this ED, and, perhaps more importantly, as investors, we represent one of the largest constituent groups of financial statement users

We share the FASB's goal to improve existing disclosure requirements thereby providing more transparency to financial statement users with respect to the accounting and reporting for derivative instruments. However, we believe that the proposed disclosure requirements go beyond these stated objectives as indicated in our letter. Accordingly, we recommend that the requirements of the ED be to consider (1) that additional accounting information at such a disaggregated level at a certain point results in diminishing utility to the financial statement reader and (2) the operational concerns with respect to monitoring and maintaining such information required for disclosure.

We believe that the Board’s decision to exclude prescriptive guidance about how derivative instruments should be presented and classified in the financial statements

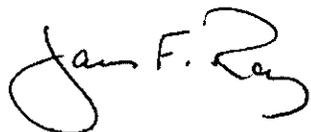
should be extended to the qualitative and quantitative footnote disclosures as well. Given the diverse range of derivative usage from one company to the next, we believe users and preparers would be better served by allowing preparers the flexibility to present the required qualitative and quantitative information in a format that best suits their particular circumstances, as long as the disclosure objectives are met.

Regardless of the ultimate form or content of the required disclosures, we do not believe adoption for fiscal years and interim periods ending after December 15, 2007, should be required as the information being requested is not readily available, will require a significant level of effort and is not currently collected for management reporting purposes. We note that there would be significant systems and operational efforts and related costs incurred to comply with the ED, while at the same time companies are expending significant resources to make systems and process changes in anticipation of adopting Statements 157 and 159, effective January 1, 2008. Therefore, we recommend that the Board delay implementation of this guidance until fiscal years ending after November 15, 2008. If the implementation is delayed for one year, prior period comparative information could be required, rather than be optional.

Lastly, we do not believe that it is necessary for financial statement users to be provided with all of the required disclosures on more than an annual basis, unless risk management strategies significantly change (such as the introduction of a whole new hedging program) warranting such additional disclosure. We believe that the required interim disclosures under Statement 157 will provide adequate information on an interim basis for users to monitor derivative activity, absent a significant change in risk management strategies for which additional disclosure could be required.

Our comments and recommendations with respect to the 11 specific issues outlined in the ED are included in the Appendix to this letter. If there are any questions regarding the contents of this letter, please contact Steve Belcher at (212) 770-6252 at anytime to discuss our comments and recommendations. Thank you in advance for your consideration.

Sincerely,



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cc: G. Michael Crooch, FASB

Appendix

Scope

Issue 1: The Board concluded that prescriptive guidance about how derivative instruments should be presented and classified in the financial statements should be excluded from the project's scope. Including presentation and classification guidance could potentially delay issuing a standard that would significantly improve the transparency about derivative instruments and hedged items. In addition, various presentation and classification issues related to derivatives and hedged items have an impact on the Board's current project on financial statement presentation and also would need to be addressed in the context of that project.

Do you agree with the Board's decision to exclude from the scope of this proposed Statement prescriptive guidance about how derivative instruments should be presented and classified in the financial statements? Why or why not?

We agree with the Board's decision not to include prescriptive guidance about how derivatives instruments should be presented and classified in the financial statements for the reasons cited by the Board in paragraph B10 of the ED.

Issue 2: Statement 133 applies to both public and private entities. The requirements in this proposed Statement also would apply to both public and private entities.

Do you agree that this proposed Statement should apply to both public and private entities? Why or why not?

We agree that that this proposed Statement should apply to both public and private entities. We believe that, on balance, a private entity's use of derivatives in a Statement 133 qualifying hedging relationship may be more limited than a public entity, based on the reduced focus on operating earnings by financial statement users. However, private entities are exposed to many of the same risks as public entities and often enter into derivative transactions to manage those risks.

Costs of Implementing the Proposed Statement's Disclosure Requirements

Issue 3: This proposed Statement would require an entity to provide information on derivative instruments (including, but not limited to, notional amounts and fair value amounts), hedged items, and related gains and losses, by primary underlying risk, accounting designation, and purpose in the tabular format shown in Appendix A.

Do you foresee any significant operational concerns or constraints in compiling the information in the format required by this proposed Statement? Are there any alternative formats of presentation that would provide the data more concisely?

The ED's requirements, as proposed, could result in the need for the preparation of at least four to five page-long tables of derivative information, driven by the fact that the ED requires that information be provided by primary underlying risk, by accounting designation and purpose. The number of tables could easily increase to six or seven in quite common situations where multiple risks are hedged simultaneously, such as foreign exchange and interest rate risk. We understand that many companies may feel compelled to provide additional tables, nearly identical to the required tables, in order to paint a complete picture with respect to "hedged items" that fall outside of a Statement 133 qualifying hedging relationship. This so-called "economic hedging" has increased in usage lately, and is expected to continue to increase with the advent of the fair value option in 2008.

In addition to the sheer volume of information required to be compiled initially and on an ongoing basis, current systems would require significant modification to be able to capture the required information. Operationally, this will be a challenge as most companies are just beginning to understand the ramifications of Statement 157 and 159, and to make the significant modifications to systems and processes in anticipation of adopting those Statements effective January 1, 2008.

As an alternative to the tabular disclosures required by the ED, a suggested alternative could be an aggregate roll-forward of the fair value of derivative balances by underlying risk and accounting designation. Such a presentation may be more useful to financial statement readers and also alleviate many of the initial and ongoing operational concerns associated with the disclosure requirements as presented in the ED. This roll-forward could provide a reconciliation between the beginning fair value balance of derivatives (in the aggregate) and the ending fair value balance, showing activity for the period by type of hedge (fair value, cash flow, and net investment) and further by type of risk within that accounting designation. It could also provide a reconciliation of the derivative component of AOCI, to show what was transferred in and what was reclassified out into earnings, including ineffectiveness. This disclosure may be more easily integrated with the disclosure requirement of Statement 107 and 157 and could also include information related to related hedged items, whether qualifying or not under Statement 133.

The roll-forward disclosure has proven to be successful in vastly improving the usefulness of financial information with respect to pension and other post-retirement benefits and was recently implemented in Statement 157 for items measured on a recurring basis at fair value that fall within Level 3 of the fair value hierarchy. Roll-forwards have also provided useful information to readers in the area of stock compensation and, for specifically for insurance companies, with respect to loss and loss adjustment expense reserves.

With respect to the tabular disclosures outlined in the ED, we feel it is a misleading indication of the company's credit risk to require gross presentation of derivative fair values in situations where such amounts qualify for net presentation on the balance sheet under FASB Interpretation 39, *Offsetting of Amounts Related to Certain Contracts*. In addition, presenting such amounts gross could potentially mislead readers who are attempting to reconcile these amounts back to Statement 107 and 157 fair value disclosures, which are presented net.

Issue 4: This proposed Statement would require disclosure of (a) the existence and nature of contingent features in derivative instruments (for example, payment acceleration clauses), (b) the aggregate fair value amount of derivative instruments that contain those features, and (c) the aggregate fair value amount of assets that would be required to be posted as collateral or transferred in accordance with the provisions associated with the triggering of the contingent features.

Do you foresee any significant operational concerns or constraints in compiling that information for this disclosure?

The information envisioned by the ED is not collected currently in the groupings required for financial reporting purposes and is not collected through current automated systems. Such contingent features are frequently the result of bilateral negotiations and are used in the credit and collateral monitoring process. Collection of such information in a manner suited for financial reporting purposes would entail significant operational efforts, capacity constraints and changes in current information gathering processes as a result.

We question the appropriateness of this disclosure in the context solely of derivatives, as it appears to be a disclosure aimed at liquidity, which has a much broader scope than just derivative instruments, and appears more suited to a disclosure required in "Management's Discussion and Analysis" as opposed to the financial statement footnotes. In addition, it only focuses on the liability side of the balance sheet. In many cases, there could be derivatives in an asset position that contain similar, if not identical, contingent features.

Disclosure of Notional Amounts

Issue 5: This proposed Statement would require disclosure of notional amounts in tables that also will include fair values of derivative instruments by primary underlying risk, accounting designation, and purpose.

Do you agree that this proposed Statement should require the disclosure of notional amounts? Why or why not?

We do not agree that notional amounts should be required to be disclosed because they are misleading indicators in and of themselves, unless they are presented with additional information to which the notional amount is applied. For example, a \$100 billion notional 1-year LIBOR swap relatively little volatility compared to a \$10 billion notional 30-year LIBOR swap. By contrast, a strip of ten \$100 billion notional futures contracts that economically replicates the \$100 billion notional 1-year LIBOR swap will be reported as having a notional amount of \$1 trillion. The effect of leveraging or de-leveraging will exacerbate this problem. The requirement to disclosure notional amounts will inevitably lead to many entities providing additional information to make such disclosures meaningful, thereby potentially creating additional confusion for financial statement readers. We believe the information that would be provided by a roll-forward, as discussed earlier, will provide the appropriate information required to understand how derivative instruments affect an entity's financial position, results of operations and cash flows.

Issue 6: This proposed Statement would require disclosure of gains and losses on all derivative instruments that existed during the reporting period regardless of whether those derivatives exist at the end of the reporting period. This proposed Statement would not require disclosure of the aggregate notional amounts related to those derivatives that existed during the reporting period but no longer exist at the end of the reporting period.

Do you agree that this proposed Statement should not require the disclosure of the aggregate notional amounts related to derivatives that no longer exist at the end of the reporting period? Why or why not?

For the reasons outlined in our response to Issue 5, we believe that providing any notional amount information in isolation will not be meaningful, and in fact will most likely be misleading, and therefore we agree with the FASB with respect to this issue.

Disclosure of Gains and Losses on Hedged Items

Issue 7: This proposed Statement would require disclosure of the gains and losses on hedged items that are in a designated and qualifying hedging relationship under Statement 133. The Board decided that an entity would not be permitted to include information in the tables on "hedged items" that are not in designated and qualifying Statement 133 hedging relationships because "economic hedging" means different things to different people.

Do you agree that information about “hedged items” that are not in designated and qualifying Statement 133 hedging relationships should be excluded from the disclosure tables? Alternatively, should the tables include gains and losses on “hedged items” that are recorded at fair value and are used in hedging relationships not designated and qualifying under Statement 133? Why or why not? Would your answer be affected by the forthcoming FASB Statement on the fair value option for financial assets and financial liabilities, which will provide the option to report certain financial assets and liabilities at fair value?

We believe a company should have the ability to provide the information required by paragraphs 44 and 45 of Statement 133, including information about economic hedges, in any way they deem appropriate and should not be prohibited from providing such disclosures as part of the quantitative disclosures required by this ED, in whatever form they ultimately take if a final standard is issued.

We believe that presenting information about economic hedges along with that of Statement 133 qualified hedge relationships provides financial statement users a more detailed and comprehensible view of management’s risk management strategies and objectives. Without such information, the risk management activities presented within the table would constitute only partial representation of the entity’s risk management efforts, and even be misleading.

We feel many companies will find themselves compelled to provide additional tables, nearly identical to the required tables, in order to paint a complete picture, as management views it, with respect to “hedged items” that fall outside of a Statement 133 qualifying hedging relationship. The ability to provide supplemental tables with the information management views as important to itself and financial statement users calls into question the relevance of such a prohibition mandated by the ED. This issue is only going to become more prevalent, as so-called “economic hedging” has increased in usage more recently, and is expected to continue to increase with the advent of the fair value option in 2008.

Disclosure of Overall Risk Profile

***Issue 8:** Under this proposed Statement, quantitative information about non-derivative instruments used as part of an entity’s overall risk management strategy would not be included in the disclosure tables. However, paragraphs 44 and 45 of Statement 133 would permit an entity to provide qualitative and quantitative information about the derivatives included in the disclosure tables as those derivatives (a) relate to the overall context of its risk management activities and (b) are related by activity to other financial instruments.*

Do you agree that information that could be provided in the qualitative and quantitative disclosures encouraged by paragraphs 44 and 45 of Statement 133 would be sufficient to appropriately inform users of financial statements about the risk management strategies

of an entity? If not, should additional information about an entity's overall risk management strategies be provided as part of the tabular disclosure required by this proposed Statement?

For the reasons discussed above in Issue 7, we believe a company should have the ability to provide the information required by paragraphs 44 and 45 of Statement 133 in any way they deem appropriate and should not be prohibited from providing such disclosures as part of the quantitative disclosures required by this ED, in whatever form they ultimately take if a final standard is issued.

Examples Illustrating Application of This Proposed Statement

***Issue 9:** This proposed Statement includes examples of qualitative disclosures about objectives and strategies for using derivative instruments, contingent features in derivative instruments, and counterparty credit risk. Those examples are intended to illustrate one potential way of communicating information about how and why an entity uses derivatives and the overall effect of derivatives on an entity's financial position, results of operations, and cash flows. The examples are not intended to be construed as the only way to comply with the disclosure requirements.*

Are those examples helpful in communicating the objectives of providing information on how and why an entity uses derivatives and on the overall effect of derivatives on an entity's financial position, results of operations, and cash flows? Or, do you believe those examples would be viewed as a prescribed method to comply with the requirements of this proposed Statement?

We are concerned that the provision of detailed qualitative disclosure examples could be viewed by many as too prescriptive, and therefore should not be included in a final standard.

Amendments Considered but Not Made

***Issue 10:** The Board considered but decided against requiring additional disclosures as described in paragraphs B55–B63. Those disclosures focused on providing information on an entity's overall risk management profile, methods for assessing hedge effectiveness, and situations in which an entity could have elected the normal purchases and sales exception.*

Do you agree with the Board's decisions not to require disclosures in those areas? Why or why not?

Given the Board's desire to issue a final statement by June 30, 2007, we believe the Board's omission of requirements for disclosure of Overall Risk Profile, Assessment of Hedge Effectiveness, and Normal Purchase and Sales Exception is appropriate as well as necessary.

Effective Date

Issue 11: The Board's goal is to issue a final Statement by June 30, 2007. The proposed effective date would be for fiscal years and interim periods ending after December 15, 2007. At initial adoption, comparative disclosures for earlier periods presented would be encouraged, but not required. Beginning in the year after initial adoption, comparative disclosures for earlier periods presented would be required.

Does the effective date provide sufficient time for implementation?

Regardless of the ultimate form or content of the required disclosures, we do not believe adoption for fiscal years and interim periods ending after December 15, 2007 should be required as the information being requested is not currently collected for management reporting purposes. There would be significant systems and operational efforts and related costs incurred to comply with the proposed Standard. In addition, both Statement 157 and Statement 159, effective January 1, 2008, would concurrently require significant systems and operational efforts and related costs. We recommend that the Board delay implementation until fiscal years ending after November 15, 2008. If the implementation is delayed for one year, prior period comparative information could be required, rather than be optional.