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February 26, 2007

Mr. Robert Herz, Chairman Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116



LETTER OF COMMENT NO. 1

RE: Accounting for Insurance Contracts Acquired in a Business Combination

Dear Mr. Herz:

We are writing to express our concern with an issue that was raised during the FASB meeting on February 13, 2007 regarding "Business Combinations: Applying the Acquisition Method Accounting for Insurance Contracts Acquired in a Business Combination." During the discussion, it was suggested that any deferred acquisition costs ("DAC") that had been held by the acquired company be carried over to the acquirer's financial statements rather than be subsumed within the intangible asset associated with the acquisition (variously referred to as Value of Business Acquired "VOBA" or Present Value of Future Profits "PVFP"). It was also suggested that this treatment would be simpler for preparers of financial statements and more transparent for users of financial statements. We do not believe that this is the case. We do believe that the current practice of subsuming DAC and similar intangibles (such as unearned revenue liabilities and deferred sales inducement assets under AICPA Statements of Position 03-1) represents the most appropriate accounting.

The proposed treatment of carrying over the DAC from the acquired company's financial statements to the acquirer's would obscure the true financial position of the acquirer, rather than increase transparency. The DAC being carried over would have arisen from expenses incurred by the acquired company, not the acquirer. Thus, these expenses and the associated accruals are of no relevance to the acquirer or to the acquirer's financial statements. Including such DAC on the acquirer's financial statements would overstate the acquirer's DAC relative to the expenses the acquirer actually incurred on business it sold.

Similarly, the resulting VOBA on the acquirer's financial statements would be understated relative to the true amount the acquirer paid for the acquired block. This would obscure the true impact of the cost of the acquisition, as well as the true impact of the expenses the acquirer incurs in conjunction with selling new business, rather than increase transparency for financial statement users.

Likewise, carrying over the acquired company's unearned revenue liabilities or deferred sales inducement assets would reduce transparency of the acquirer's financial statements. The acquirer did not assess the fees that generated the acquired company's unearned revenue liabilities, nor did it incur the sales inducement costs that generated the deferred sales inducement asset. Thus, including such assets and liabilities in the acquirer's financial statements would overstate the amounts. Similarly, the acquirer's VOBA would be misstated relative to the amount the acquirer actually paid for the business.

Carrying over the acquired company's DAC would complicate, rather than simplify, financial reporting for preparers. At the most basic level, it would add an additional step to the purchase accounting process of deducting the DAC balance to be carried over from the calculated VOBA amount. Subsequent to the initial acquisition date, the acquirer would need to account for, amortize, and report multiple intangible assets for the acquired block rather than a single intangible, VOBA. This would be burdensome to administer, less meaningful and potentially confusing to the financial statement user.

These complications (from carrying over the acquired company's DAC) would be further exacerbated by whether a contract's original inception date rather than the acquisition date should be used in making retrospective adjustments after the issue date. This relates to the discussion on Issue #4 in the FASB handout. We also do not believe that the contract's original inception date is the correct basis for such retrospective adjustments on the acquirer's financial statements. The acquirer was not a party to the insurance contract until the acquisition date. The profits that emerged prior to the acquisition date that would form the basis of such retrospective adjustments inured to the acquired company and not to the acquirer.

If the insurance contract's original inception date needs to be used for making retrospective adjustments to DAC carried over from the acquired company, then the DAC would have a different amortization basis than the VOBA, adding to the complication of the calculations. Further and a critical consideration is that the necessary information on profits that emerged prior to the acquisition date may not always be available from the acquirer. Even if such information was available, it may not be possible for the acquirer to properly validate such historical information, making it problematic to use in the acquirer's financial statements and for the acquirer's auditors to opine upon.

In addition, the acquired company's accounting policies may have been appropriate, but different from the acquirer's accounting policies. The DAC calculation pre-acquisition may have used simplified methods due to materiality considerations of the acquired company in relation to its parent's (the seller) materiality thresholds. However, it may be material to the acquirer, making it particularly problematic and inappropriate for such DAC balances to be carried over by the acquirer.

We also believe that carrying over DAC and similar accruals (such as unearned revenue liabilities and deferred sales inducement assets) from the acquired company's balance sheet actually moves a step away from fair value accounting. On the acquisition date, the VOBA as currently calculated as a part of the purchase accounting process represents the fair value of the acquired business. If the VOBA calculation on the acquisition date needs to include items such as DAC, then VOBA would not represent fair value even on the acquisition date. Accordingly, in addition to generating reduced transparency and increased complexity, we believe that retaining pre-acquisition DAC in the acquirer's financial statements also conflicts with FASB's stated goals of moving towards fair value reporting. As a result, instead of having one intangible asset at fair value on the acquisition date, we end up with several intangibles individually at something other than fair value.

Last, such proposed guidance conflicts with principles noted in EITF 01-3 which prohibit establishing liabilities that do not have continuing legal obligations in a business combination. As an example, unearned revenue of the acquired company is not a continuing legal obligation of the acquirer on the acquisition date. While we understand that business combination accounting as a whole is being revisited, MetLife's opinion is that violating the principles in EITF 01-3 would not

improve financial reporting and may create less transparent and less meaningful financial statements.

If you have any questions regarding our views, please contact us anytime to discuss this letter.

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