



Swiss Re



LETTER OF COMMENT NO.

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Mr. Russell G. Golden
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Financial Accounting Standards Board
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file reference: 1620-100

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Re: Exposure Draft (ED) – Amendments to FASB Interpretation No. 46 (R) - No. 1620-100

Dear Mr. Golden,

As one of the leading global reinsurers, Swiss Re supports the FASB in developing high-quality accounting standards. We have considered this Exposure Draft on variable interest entities (VIEs), which would amend FASB Interpretation No. 46 (R), and welcome the opportunity to share our thoughts with you.

We have the following comments on the Exposure Draft:

Convergence with IFRS

We note that the IASB is currently working on a project on consolidations. The expected date of a discussion paper is by the end of 2008 and the expected timing for release of a final standard is in the second half of 2009. Currently, the FASB staff is monitoring the progress of the IASB project and will consider whether to issue its own Discussion Paper based on the IASB document. We think it would be reasonable to reconsider the treatment of VIEs within this consolidation project rather than create interim guidance under this Exposure Draft that may change shortly thereafter. This will reduce significant efforts and costs for companies. We also support and encourage the two boards to develop a common model which will contribute to facilitate the transition of companies from US GAAP to IFRS.

Principled based approach

We support the proposal of the FASB to provide a more principles-based approach to determine a primary beneficiary. The proposed approach will potentially lead to more sensible and robust results and at the same time will release companies from extensive and complex calculations. In this regard, we would support eliminating the requirement to perform quantitative analysis, as we think in most cases the primary beneficiary can be determined on a qualitative basis (please refer to our comments in the next section).

Securitisations on Autopilot

Certain securitisation vehicles are normally completely on “autopilot”, meaning that no party can direct matters that significantly impact the activities of the VIE. We think that in these cases it is unlikely to conclude that a single party consolidates. It would be helpful for the board to clarify these and similar situations, where it appears that no party has the power to direct.

Ongoing assessments

In the proposed statement, the specific reconsideration events are eliminated. We agree with the Board that assessments should not be limited to the end of the reporting period. However we feel that removing reconsideration events places a considerable administrative burden on companies to implement a process to formally document and monitor changes in an entity’s status. We do therefore not support the removal of the specific reconsideration events as we feel that the costs will not justify the benefit. However we would support the inclusion of the experience of unanticipated economic results together with the other reconsideration events considered by the Board (par. B9).

Disclosures

We understand the need for more extensive and more relevant disclosures about an enterprise’s involvement with a VIE. However, we question the usefulness of some of the proposed disclosure requirements:

- The board has changed paragraph 6 to require that an enterprise determines whether an entity with which it is involved is a variable interest entity if the enterprise’s interest is *significant either to the VIE or the enterprise. We feel that significance should be solely determined from the reporting entity’s perspective. Significant variable interests require extensive disclosures, which are only meaningful to the investor if significance is defined in relation to the reporting entity. Otherwise the possibility is high that irrelevant and even misleading disclosures will be produced. In addition, passive investors with no further involvements with a VIE would not have access to all the information needed to make the disclosures required.*
- We feel that liquidity, guarantees, and other commitments to the variable interest entity by third parties should only need to be disclosed if they impact the reporting entity.
- We do not support the idea that a sponsor needs to provide disclosure irrespective of the significance of the variable interests he holds. We think that this would lead to irrelevant and potentially confusing disclosures. We also miss a definition of the term sponsor.
- We do not support the proposed amendment to par. 23 of FIN46(R) which eliminates the exception from the required disclosures for entities that are the primary beneficiary and also holds a majority voting interest. *We do not understand, why in these cases the company needs to provide additional disclosures which it would not need to provide, if the consolidated entity were not a VIE. We are concerned that this could lead to frequent changes in the VIE disclosures which could be confusing to the investor. For instance in the case when a voting interest entity becomes a VIE due to a loss and a corresponding reduction in equity and then gets new funding in the next quarter so that*

it loses again the status of a VIE. In order to prevent such rather confusing shifts in and out of the VIE category, the exception should not be removed.

- We do not understand why the Board requires additional disclosures for consolidated VIEs e.g. fair value of the VIE's assets and liabilities which are not required for entities consolidated under the voting model. We think that disclosure requirements for assets and liabilities of subsidiaries should not differ based on the model applied to conclude that consolidation is required.
- Par. 22C (a) requires to disclose significant assumptions and judgments made and whether a different assumption or judgment could have reasonably been made that would result in a different conclusion. We do not support the disclosure of judgments that could have been (but were not) made and the effects of those judgments. We feel that such information rather belongs in a management discussion (if at all) than in audited financial statements. We see little value in requiring the management to disclose alternative assumptions and judgments not being the basis for the conclusions in the financial statements, and we feel that the information disclosed will potentially raise more questions than it will answer.

We appreciate the opportunity to respond to your Invitation To Comment. Please do not hesitate to contact me for any questions regarding our above comments.

Yours sincerely,



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