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January 15, 2009

LETTER OF COMMENT NO. 58

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Via E-mail: director@fasb.org

File Reference: Proposed FSP FAS 107-a

The American Insurance Association ("AIA") is pleased to provide the following comments to the Financial Accounting Standards Board ("FASB") with respect to the proposed FASB Staff Position ("FSP") referenced above. The AIA is a leading property-casualty insurance trade organization, representing 350 insurers that write more than \$123 billion in premiums each year. Property-casualty insurers are major participants in the capital markets, holding trillions of dollars in investments, and therefore would be directly impacted by the disclosure requirements provided in this proposed FSP.

The AIA appreciates the FASB's efforts to increase comparability of information about certain financial assets that have related economic characteristics. AIA acknowledges that the proposed disclosure requirement is intended to be only an interim step; nevertheless, AIA is concerned that the additional disclosures required by the proposed FSP may confuse the users of financial statements. The proposed FSP provides for an alternative measure of financial instruments ("incurred loss") as well as two pro-forma income amounts. These alternative ("non-GAAP") disclosures do not improve generally accepted accounting principles. Before requiring new measurements and disclosures, the Board should proceed with its comprehensive joint project with the IASB to address complexities related to recognition and measurement of financial instruments.

In addition, implementation, at this late date, of the disclosure requirements of the proposed FSP would be excessively burdensome on preparers. The U.S. property-casualty insurance industry, at any given time, has over a trillion dollars invested in securities, most of which are in debt securities. At a minimum, insurers would have to re-program their investment systems for all impaired bonds and, depending on the intent of the guidance, potentially all securities accounted for under EITF 99-20. Additionally, some systems do not maintain the original effective yield, raising a very real operational problem for some insurers. And even if systems

could be quickly re-programmed, there simply is no time to perform the analysis and review that would be necessary for providing the suggested disclosures.

For SEC registrants, the proposed FSP presents another operational issue with respect reporting obligations under the Sarbanes-Oxley law. Publicly traded companies are required to report on their system of internal controls over financial reporting as of year-end. Without question, investment activity is a material element for insurers, and for which many internal controls have been established. If approved in its current format, the proposed FSP would create an awkward situation for insurers that must report under Sarbanes-Oxley: how does an insurer represent that the internal controls are effective for a process (i.e., incurred loss method) that may not have existed at year-end? For calendar year-end reporting companies, the proposed FSP would create a significant Sarbanes-Oxley challenge for insurers.

We also question if this guidance must be applied to the entire portfolio or just to the impaired securities. Property-casualty insurers invest in high-grade debt securities that, for the most part, have been performing according to the terms of their indenture. Applying the "incurred loss" method to the entire portfolio would likely not create a significant difference from the amortized cost information that is already disclosed; but it would create a lot of unnecessary work for the preparer. Thus, the usefulness of the additional disclosures remains questionable.

Finally, the proposed FSP is unnecessary because financial statement preparers already have the option to disclose the information. Earlier in 2008, the SEC issued a "Dear CFO Letter" that discussed when it was appropriate to disclose information in Management's Discussion and Analysis that would enable users to understand management's view of the future cash flows of securities if those cash flows would be significantly different than the recorded fair value measurements. This SEC guidance seems to suggest that preparers can disclose alternative measurements if those measurements would be important to the users of the financial statements. Because this SEC guidance already exists, this FSP would not be needed.

In conclusion, AIA cannot support the Proposed FSP FAS 107-a because it is unnecessary and not helpful. Implementation of this FSP presents many operational issues, further calling into question its utility of the proposed FSP. Instead of focusing its efforts on an interim disclosure proposal, FASB would better serve its constituencies by moving forward in developing much needed principles-based guidance for addressing reporting issues when the market for financial assets is inactive or illiquid.

Thank you for this opportunity to comment on the proposed FSP. Please feel free to call on AIA with any questions.

Sincerely,



Phillip L. Carson
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