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March 31, 2009

LETTER OF COMMENT NO. 260

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

LETTER OF COMMENT NO. 299

Dear Technical Director:

RE: Proposed FASB Staff Position No. 157-e
Proposed FASB Staff Position No. 115-a, FAS 124-a, and EITF 99-20-b

Jackson National Life Insurance Company ("Jackson") is pleased to comment on the proposed FASB Staff Position FAS 157-e, *Determining Whether a Market is Not Active and a Transaction is Not Distressed* ("Fair Value FSP") and the proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments* ("OTTI FSP"). Jackson is an indirect subsidiary of Prudential plc, one of the world's leading financial service groups. In addition to life insurance, Jackson issues variable, fixed and fixed index annuities. Jackson maintains a significant investment portfolio comprised primarily of investment grade corporate and asset-backed securities, including substantial positions in residential and commercial mortgage-backed securities and other structured debt securities.

We are encouraged that the FASB staff is proposing modified guidance with respect to fair value and other-than-temporary impairment recognition in light of severely dislocated market conditions that make estimating values and recording impairments particularly challenging. Our observation is that trading activity for many structured securities has deteriorated to such an extent that willing-participant transactions are nearly non-existent. Fair values for many securities, particularly structured securities, are so depressed that we believe the current approach for determining impairment charges may distort financial results. In market environments such as this, we believe basing impairment charges on fair value is likely to overstate, in some cases dramatically, the actual losses that will be incurred on a severely depressed security if it is held with the intent and ability to retain for the longer term or until maturity.

It appears that the current dysfunctional market environment for many structured securities, and in fact entire asset classes, is likely to persist for the foreseeable future. As such, absent a move away from using the current FAS 157 based fair value for recording other-than-temporary impairments losses on these securities, we suspect life insurance industry impairment losses in 2009 will greatly exceed the estimated economic losses that will be realized. It is our belief that unchanged, existing impairment guidance will further exacerbate the potential for unnecessary life insurance industry impairment capital charges at an economic time that is already the most challenging in decades.

We believe the issues being addressed in these FSP's are particularly important at this time due to a rapidly emerging situation related to widely held senior tranches of structured entities, including so-called "super-senior" tranches (the most senior tranches in these entities), held by many life insurance and other long-term investors. We believe many investors in these securities are currently projecting (many years out) only minor losses on contractual balances based on highly stressed modeling assumptions and scenarios but which are being valued at significant discounts to contractual value. Given the environment, it is not unusual to see several values being calculated for these and similar securities. For example, it would not be uncommon to see valuation determinations such as the following (values are as a percent of contractual value), book value – 100, recovery or realizable value - 98, fair value - 80, liquidation value - 60. Absent a change in the other-than-

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temporary impairment rules, impairment charges recorded in 2009 by investors in these types of securities are likely to far exceed actual losses anticipated on these securities.

We offer additional specific comments on the proposed FSP's below.

Proposed FSP FAS 157-e

In general, we agree with the proposed Fair Value FSP but believe that further clarification should be provided concerning internal valuation processes based on discounted cash flows when it is determined that a market is not active and that quoted prices reflect distressed transactions. In particular, we believe the Fair Value FSP should include operational guidance on how to determine inputs to the present value techniques that reflect orderly transactions, when there are no observable orderly transactions. Such guidance needs to be sufficiently described to enable a greater level of consistency between companies, for example with respect to estimating an orderly transaction environment (i.e., nondistressed transaction) and regarding the determination of appropriate risk premiums. However, the guidance should not be so prescriptive as to prevent a degree of management judgment with respect to circumstances applying to particular securities. We also note that, to enable the information to be useful to investors, disclosure will be necessary as to the approach applied and assumptions used. In determining the level of that disclosure, it is important that the focus should be on the key judgments rather than overly detailed analysis.

In addition, we encourage the FASB to provide additional guidance in Appendix A, specifically with respect to the example for determining the fair value of a financial asset when a market for that asset is not active (paragraphs A32A through A32G). Specifically, paragraph A32E describes a process for determining a discount rate to be applied to the most likely estimate of cash flows. Included in the suggested steps for estimating an appropriate rate of return is, "Reasonable assumptions regarding liquidity and nonperformance (for example, default risk and collateral value risk) risks that willing buyers and willing sellers would consider in pricing the asset in an orderly transaction based on current market conditions." We believe it would be extremely helpful to include operational guidance that would further describe how to determine reasonable assumptions consistent with the spirit of this paragraph.

Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b

Question Responses

With respect to your Question 1, we believe the separation of an other-than-temporary impairment into two components does provide meaningful decision-useful information. Our belief is that this approach will provide investors with better information concerning a company's actual expected credit losses. If investors believe the fair value more appropriately reflects expected credit losses, they will have this information as well.

Additionally, for the life insurance industry, that over the years has attempted to conform its statutory accounting guidance to be more consistent with GAAP, this proposal also establishes a better overall framework for ultimately determining future regulatory capital charges on impairments for statutory accounting and reporting purposes.

With respect to Question 2, we believe the guidance in the proposed OTTI FSP is clear and operational. Based on our extensive experience modeling cash flows, we believe it is clearly possible to separate the credit loss amount from the total other-than-temporary impairment, particularly for structured securities. In situations where it can be separately identified, including only the loss amount related to the credit component in earnings more appropriately reflects the expected economic impairment. Recording the balance of the other-than-temporary impairment loss related to other factors in other comprehensive income is also appropriate. Unless and until a further credit loss impairment is identified, no further losses should be included in earnings.

With respect to Question 3, we agree that the changes proposed concerning management assertions regarding its holding intentions are more operational, and should not result in a significant change to the assessment of whether a security is other-than-temporarily impaired.

With respect to Question 5, we believe the effective date of interim and annual periods after March 15, 2009 is practical. Our company's credit analysis process has always identified, for internal purposes, our estimate of the credit losses within the total other-than-temporary impairment to the extent we believed it to be different than the total. As such, we will be able to adopt the new guidance almost immediately.

Credit Component of an Other-Than-Temporary Impairment (Appendix A)
With respect to determining the credit component of an other-than-temporary impairment of debt securities that are beneficial interests in securitized financial assets, we endorse an approach that determines the credit component consistent with the guidance in paragraph 12(b) of Issue 99-20 (as referenced in Question 2). To emphasize the potential significance of such an approach on the impairment charges that would be recorded in earnings given the current inactive market environment for many structured securities, we offer an example described below which contrasts the determination of an impairment charge under the proposed guidance with one under the current guidance.

Consider an illiquid residential mortgage backed security deemed to be a beneficial interest in securitized financial assets within the scope of Issue 99-20. Assume that the security is originally purchased at a price of 100 (percent of par value) for $100,000,000. Further assume that at a subsequent date it is determined that the security is other-than-temporarily impaired. Appendix A shows what we believe could be four separate approaches to valuing this security, as of a subsequent date. These four values are described for purposes here as the *book value*, the *net realizable value*, the *fair value*, and the *liquidation value*. With the exception of the book value, each of the values is based on identical future (impaired) projected cash flows for the security. The book value is equal to the amortized cost basis of the security; an interim value based on the original expected (unimpaired) cash flows as of the initial purchase date. The net realizable value is the present value using a discount rate equal to the purchase yield. The fair value is the present value using a discount rate determined in accordance with FAS No. 157. And finally, the liquidation value is the present value using a discount rate at which the security could be immediately sold in a forced transaction. The liquidation value assumes the most significant discounting of the projected future cash flows and is most similar to today's distressed "market values" being estimated by brokers and pricing services.

Referencing the information in Appendix A, assume that this security has been determined to be other-than-temporarily impaired as of a subsequent date. Under the current accounting guidance, the other-than-temporary charge to earnings for this security would be $68,314,400 (shown in column 3), which is the difference between the book value and the fair value. As described in the proposed OTTI FSP, this other-than-temporary impairment would be separated into two components, a credit component and a non-credit component. In this example, we believe the total other-than-temporary impairment would be separated into a credit component of $3,427,389, recognized in earnings, and a non-credit component of $64,887,011, recognized in other comprehensive income. As this example shows, the difference in the charge recorded in earnings could be significant for securities whose fair value differs significantly from net realizable value. We believe the accounting described in the "net realizable value" column (Column 2) of the table demonstrates an acceptable approach to recording other-than-temporary impairment charges under the proposed OTTI FSP.

We believe this example shows the typical values that could be developed for an illiquid structured security in an inactive market. This example is consistent with many of today's super-senior tranches of mortgage-backed securities for which, even under severely stressed cash flow scenarios, only a small principal loss is being projected. We hope the FASB will carefully consider this example, as we believe it is representative of the many thousands of asset-backed securities for which valuation calculations and other-than-temporary impairment determinations will be extremely challenging for GAAP financial statement preparers.

While the example provided highlights the difference in accounting for an other-than-temporary impairment under the current and proposed guidance, we think it demonstrates the significant impact this proposed change in other-than-temporary impairment accounting will likely have on reported earnings.

Other Considerations

Statutory (Insurance) Accounting for Other-Than-Temporary Impairments

The NAIC has been considering enacting new statutory impairment rules since 2008. Proposed rules were deferred until 2009 and are still being debated. It is very clear at this point that the industry is very concerned about changes that could result in other-than-temporary impairment charges on loan-backed and structured securities that are far in excess of any expected economic or credit losses. Recent industry working group discussions clearly support deferral of any statutory changes until the GAAP rules have been made more fair and have been finalized. This will allow statutory rules to be fully debated and conformed where appropriate to the GAAP rules.

By way of background, under current statutory guidance, fixed income investments were generally held at amortized cost and impairments are recorded on a return of investment basis (i.e., cost recovery) whereby undiscounted future estimates of cash flows are compared to the current book value with impairments recorded where projected total cash flows are less than the current cost basis of a security. While the previous statutory impairment rule was generally recognized as too generous, the NAIC's proposed amendment, described in Statutory Statement of Accounting Principal No. 98, *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, An Amendment of SSAP No. 43 – Loan-Backed and Structured Securities* (SSAP 98), promulgates an other-than-temporary impairment accounting approach for loan-backed and structured securities that is nearly identical to the current GAAP guidance (i.e., recording credit-related impairments based on fair value).

We believe the spirit behind the NAIC's recent amendment is to better align statutory impairment accounting with GAAP. However, because this proposed FSP appears to be in response to the overwhelming belief that, given the current environment, GAAP impairment rules are overstating expected actual credit losses, we are encouraging the NAIC to defer enactment until the GAAP rules are finalized.

Our hope is that state insurance accounting regulators (i.e., NAIC) will consider this proposed FSP and respond accordingly when finalized to change their other-than-temporary impairment guidance to one that is similarly focused on expected actual credit losses. By doing so, we believe the insurance industry can prevent the significant and unnecessary capital erosion that would otherwise occur under the proposed SSAP 98 guidance.

With respect to the life insurance industry, it is likely that this OTTI FSP will have a significant effect on other-than-temporary impairments recorded in the future. Assuming our example reasonably represents the current market conditions for an illiquid structured security, it is easy to see that impairments recorded to earnings under this FSP would appropriately only represent a fraction of the impairments that would be recorded under the current GAAP impairment rules and would clearly more fairly reflect the economic losses for those who have the intent and ability to hold investments to maturity.

Because insurers hold material amounts of illiquid structured securities for which fair values in the current environment are extremely depressed, we believe the failure of regulators to act quickly to adopt other-than-temporary impairment guidance similar to what is being proposed by the FASB in this OTTI FSP will force insurers to record substantial write-downs in 2009 related to structured securities for which only modest expected principal losses are projected to occur in the distant future. These excessive write-downs are likely to negatively impact reported capital levels dollar for dollar since future anticipated capital gains cannot always be assumed as a tax offset.

Conclusion

While we support the adoption of the FASB's proposed Fair Value FSP, we believe additional clarifying guidance concerning the development of internal valuations when markets are inactive would make it easier for companies and their auditors to determine FAS 157 compliant fair values.

We also support the OTTI FSP, which proposes changes to the other-than-temporary impairment guidance, because the illiquid market environment today is forcing fair value estimates that we believe in most cases do not appropriately reflect the expected losses that investors, like us, who have the intent and ability to hold these securities to their recovery in value

or maturity, will actually incur. We strongly believe that the other-than-temporary impairment model put forth in the proposed OTTI FSP will more appropriately reflect in earnings the credit losses to a much fairer standard.

We appreciate the opportunity to provide our comments. If you have any questions about our comments, please contact me at 517-702-2434 or andy.hopping@jackson.com.

Sincerely,

Andrew B. Hopping
Executive Vice President and Chief Financial Officer

c: Mr. Jim Armstrong
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Appendix A

Example
Other-Than-Temporary Impairments - Proposed Guidance versus Current Guidance

Four Approaches to Value - Subsequent Date

		Two Approaches to Other-Than-Temporary Impairment		
		Proposed	Current	
	(1) Book value	(2) Net realizable value	(3) Fair value	(4) Liquidation value
Contractual principal	100,000,000	100,000,000	100,000,000	100,000,000
Projected principal	100,000,000	94,168,311	94,168,311	94,168,311
Projected principal loss	0	5,831,689	5,831,689	5,831,689
Cost basis (pre-impairment)	100,000,000	100,000,000	100,000,000	100,000,000
Net present value	100,000,000	96,572,611	31,685,600	23,510,000
Price (NPV/book value)	100.0%	96.6%	31.7%	23.5%
Discount rate	6.0%	6.0%	24.9%	32.7%
Cost basis less NPV	0	3,427,389	68,314,400	76,490,000
Other-than-temporary impairment:				
Proposed guidance:				
Included in earnings		3,427,389		
Included in OCI		64,887,011		
Current guidance:				
Included in earnings			68,314,400	
Included in OCI			0	