



October 9, 2008

Mr. Russell Golden
FASB Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 68

Dear Mr. Golden:

The Group of North American Insurance Enterprises (“GNAIE”)¹ appreciates the opportunity to comment on the Proposed FSP FAS 157-d, an amendment to FASB Statement No. 157, *Fair Value Measurements* (“Proposed FSP”).

GNAIE has been a very active participant in the fair value measurement dialogue that has occurred over the past several years as it related to the development of FASB Statement No. 157, *Fair Value Measurement* (“SFAS 157”), FASB Statement No. 159, *Fair Value Option*, as well as the IASB’s Phase II Insurance Contracts Project. In each of those past and present discussions, GNAIE’s recommendations have remained the same; i.e., that the use of fair value as a measurement basis is only appropriate where active, liquid, orderly markets exist from which relevant, reliable, and observable corroborative information is obtainable on a continuous basis. Where this is not the case, we have consistently advocated the use of measurement techniques customized to the specific instrument subject to measurement.

Upon review of the Proposed FSP, our principal concerns are that (a) the stated objective of the Proposed FSP is fundamentally flawed, and (b) the Proposed FSP ignores what we believe is a fundamental prerequisite for fair value measurements; i.e., the existence of markets that are active, liquid, and orderly. In the case of the stated objective, we believe the appropriate objective should be a determination as to *if SFAS 157 should be applied to financial assets associated with inactive or disorderly markets (where reporting entities have the intent and ability to hold such securities as a long-term investment) and not how to apply SFAS 157 to financial assets associated with inactive or disorderly markets.* We believe the stated objective suffers from the same shortcomings of SFAS 157, which is that it inappropriately and unnecessarily *forces* the application of a measurement model to instruments that do not possess the fundamental prerequisite characteristics necessary to support a fair value measurement (i.e., markets that are active, liquid, and orderly). The results, not surprisingly, are unreliable, irrelevant measurements that are not representative of fair value (as they typically represent a liquidation value). The resulting measurements are also inconsistent with the going-concern status of the reporting entities required to apply the measurements; most of which have both the intent and ability to hold the securities in question as long-term investments. In addition to the significant shortcomings already illustrated, it should also be understood that requiring reporting entities to measure financial assets associated with markets that are not active, liquid, or orderly at liquidation values results in the creation of a mixed attribute measurement model; a result the FASB has historically sought to avoid or eliminate where possible.

¹ GNAIE consists of the Chief Financial Officers of 18 leading insurance companies including life insurers, property and casualty (“non-life”) insurers, and reinsurers. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations. All are major participants in the US markets.



Notwithstanding the theoretical and practical concerns noted above, we believe the Proposed FSP places disproportionate weight on evidence, in the form of transactions occurring in markets that are not active, liquid, or orderly, in the determination of a liquidity risk adjustment which is required when using a discounted cash flow ("DCF") technique to value financial assets associated with markets that are inactive. Moreover, Paragraph A32F of the Proposed FSP indicates that when completing a DCF valuation, *the risk-adjusted discount rate should include the reporting entity's best estimate of the assumptions market participants would use in pricing the asset in a current transaction to sell the asset at the measurement date.* Paragraph A32F goes on to say that risks to be included in the determination of the risk-adjusted discount rate should include a provision for liquidity risk (i.e., *the compensation a market participant would demand for buying an asset that is difficult to sell under current market conditions*). As a result of the preceding, we believe the guidance in the Proposed FSP that describes the use of a DCF valuation technique when markets are inactive will result in the computation of liquidation values by virtue of the fact that the guidance specifically requires reporting entities to calibrate DCF model inputs to existing market conditions which are acknowledged as being inactive, illiquid, and lacking order. Accordingly, we see no difference or potential benefit in terms of developing a measurement through the use of a DCF valuation as described in the Proposed FSP as we believe the resulting measurement would be a liquidation value.

In contrast to the guidance set forth in the Proposed FSP, GNAIE believes that financial assets that are not associated with markets that are active, liquid, and orderly, should not be required to be measured at fair value (which is typically a liquidation value) unless the reporting entity cannot assert a positive intent and ability to hold such securities as long-term investments. Assuming an intent and ability to hold such securities as long-term investments, we believe the measurement model should be based on the present value of expected future cash flows. In calculating the value of such instruments, reporting entities would be required to develop expected cash flow estimates based on current expectations. The discount rate should be commensurate with the inherent risk of the associated cash flows and consistent with the reporting entity's intent and ability concerning the securities (i.e., assuming the intent and ability to hold the securities as long-term investments, *the discount rate would reflect the expected demands of a long-term investor* and not those implied from an inactive market reflecting forced sales and immediate liquidation prices).

We believe the FASB should consider clarifying its proposal further as we do not believe it is either helpful or appropriate in the determination of fair value in situations where markets are illiquid or inactive. We would also point out that for the same reasons we have significant concerns about the proposed guidance and its application to financial assets that lack markets that are active, orderly, and liquid, we are equally concerned with the IASB's long-standing effort to impose a fair value-based measurement model on insurance contracts where no markets exist to corroborate the basic validity of periodic measurements.

Sincerely,

A handwritten signature in black ink that reads "Kevin Spataro". The signature is written in a cursive, slightly slanted style.

Kevin Spataro
Chairman, Accounting Convergence Committee
Group of North American Insurance Enterprises, Inc.