



December 13, 2010

Sir David Tweedie, Chair
International Accounting Standards Board
30 Cannon Street, First Floor
London EC4M 6XH
United Kingdom

Ms. Leslie Seidman, Acting Chair
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856
United States

Re: Joint IASB/FASB discussion of insurance contracts, December 15, 2010
Agenda Item 7

Dear Sir David and Ms. Seidman:

We want to commend the Boards and staffs for their outreach efforts to collect additional feedback on insurance contracts. We especially want to thank Pat Finnegan, Sandra Hack, Jennifer Weiner, and Trent Handy for the time they spent and the thoughts they shared with us in our recent meetings with them. We are also glad to see that the Boards will be discussing feedback from the outreach efforts on December 15. We read with great interest the Staff Paper, "Outreach Summary" (IASB Agenda Reference 7C, FASB Agenda Reference 54C), that was posted on the IFRS web site. In Paragraphs 9 and 10 of that Paper, the staffs highlight five critical issues that they "think the Boards will need to spend most time on in the redeliberations" – volatility in profit or loss, unbundling, residual vs. composite margin, presentation, and short-duration contracts. We agree that all five of these issues are very important, and that the Staff Paper provides a reasonable basis for continuing your discussions.

The staffs also list twelve other points on which they received feedback in Paragraph 46 of the Paper. We are concerned that some of the issues listed are not adequately covered in the Paper. Most critically, there is only one paragraph (Paragraph 51) in the Paper on discounting non-life claim reserves. As noted on Page 7 of another Staff Paper for your discussions of insurance contracts ("Proposed Measurement Model", IASB Agenda Reference 7B, FASB Agenda Reference 54B), "most national GAAPs do not discount most non-life claim liabilities". Users of financial statements of non-life insurers are largely satisfied with this current reporting basis, which is well aligned with the business model of most non-life insurers and with providing investors and other financial statement users with the most understandable information about the adequacy of claim and claim expense reserves and claim reserve development. The current reporting basis is focused on the key performance metrics of these entities (e.g., claims development and underwriting ratios), and provides relevant and representationally-faithful information to users.

In contrast, the building block measurement basis proposed for non-life claim liabilities in the IASB's Exposure Draft (ED) would tend to obscure these performance metrics and financial statement users' understanding of claim reserve development, and would relegate the most reliable information on business performance (e.g., claims development on an undiscounted basis) to supplemental disclosures. Preliminary field test results raise further questions about the value of information that would be provided

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by the proposed approach. We do not think that Paragraph 51 in the Staff Paper adequately reflects the concerns that we and others have raised, in the outreach effort and elsewhere.

In planning for your redeliberations on insurance contracts, we strongly suggest that the issue of short-duration insurance contracts should include the measurement model for both pre-and post-claim liabilities of such contracts, both of which are presented on an undiscounted basis without explicit risk margins in the globally consistent measurement model currently applied throughout most of the world.

The Boards have yet to give adequate consideration to the value of information provided by the current reporting basis, or to the problems of applying the proposed measurement framework to these contracts, or to the problems of valuing some liabilities of these contracts according to the modified approach while valuing other liabilities of the same contracts according to the building blocks. The limited field-testing that has been done will provide useful information for your consideration, and we would be pleased to provide additional information or to respond to questions you may have.

Thank you for considering these comments in your discussions on Wednesday.

Sincerely,

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

Kevin A. Spataro
Chair, GNAIE Accounting Convergence Committee

KAS:KK:cjl

CC: IASB Board Team for Insurance Contracts, Peter Clark, Andrea Pryde, Sandra Hack
Jennifer Weiner and Trent Handy, FASB