



Allianz of America Corporation

Peter Huehne
Chief Financial Officer

Letter of Comment No: 189
File Reference: EITF03-1A

October 29, 2004

Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116

Mr. Lawrence W. Smith
Chairman of the Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Proposed FASB Staff Position EITF Issue 03-1a

Dear Messrs. Herz and Smith,

Allianz of America is pleased to provide you with feedback regarding the Proposed FASB Staff Position EITF Issue 03-1a regarding the clarification of EITF 03-1, The Meaning of Other-Than-Temporary Impairment (the Proposed FSP). We would also like to note that Allianz Group has submitted a comment letter to you concerning the Proposed FSP addressing general additional issues as well.

Background

Allianz of America, Inc. ("AZOA") is a holding company and wholly owned subsidiary of Allianz AG. AZOA belongs to the Allianz Group under the group management of Allianz AG and conducts its business primarily through wholly owned subsidiaries. AZOA's major subsidiaries are comprised of property and liability, life insurance, and asset management companies. The insurance subsidiaries are licensed to market multi-line property and liability business, group and individual life, annuity, and accident and health business in the United States, Canada, Mexico, and several U.S. territories. AZOA's investment management company, Allianz Dresdner Asset Management of America LLC, is one of the largest investment management companies in the United States offering institutional and individual investors domestically and abroad a diverse range of fixed income and equity advisory services, including mutual funds and institutional separate account management.

The Allianz Group is a SEC registrant and a "foreign private issuer" (FPI) under SEC rules, and files an Annual Report on Form 20-F with the SEC. Allianz Group prepares the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as the primary basis of reporting.

As a result, Allianz Group is required by the instructions of Form 20-F to reconcile the IFRS consolidated net income and shareholders' equity to accounting principles generally accepted in the United States of America ("U.S. GAAP"). As a company with over €1 trillion in total assets and €48 billion in total revenues at June 30, 2004, Allianz Group knows you can appreciate the challenges we constantly face in gathering data for U.S. GAAP reconciling items.

General Remarks

According to our understanding EITF 03-1 and EITF 03-1a will extend the existing impairment rules. Until now impairment write-downs need to be reflected only for creditworthiness deterioration absent planned sales of available for sale securities where recovery of value is not expected prior to any planned sale date. Under EITF 03-1, impairment is assumed for interest rate and/or sector spread value reductions on available for sale securities unless an entity asserts the ability and intent to hold an investment and expects that the value will recover. From our perspective ability and intention do not lead to further documentation requirements but are already requested by other standards.

For debt securities that can contractually be prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost, evidence of value recovery significantly burdens the investor. While such an administrative effort might be justified by making the importance of potentially impaired securities transparent, Allianz of America believes the impairment rules enumerated in EITF 99-20 provides sufficient guidance for most of these securities. For such securities excluded from the scope of EITF 99-20, Allianz of America understands the contractual right for prepayment enlarges the probability of a loss. However, the requested proof of value recovery does not consider the probability of the use of the prepayment right. It is not acceptable from our point of view to initiate such a process for investors without consideration of the probability of actually realizing a loss due to exercising the prepayment option. Allianz of America would highly appreciate a clarification of the EITF 03-1 in this regard. From our point of view the evidence as requested by EITF 03-1, 10b is assumed as given as long as no probable use of the prepayment right has been indicated.

As a general remark, AZOA holds a major part of their investments within the Available-for-Sale (AFS) category. In order to manage several risk elements (such as credit risk, sector spread, sector concentration) and match liability duration and target yield of these investments, the flexibility of the AFS designation is used. The EITF would significantly reduce the flexibility required to manage AZOA's AFS portfolios, because Paragraph 7 of the proposed standard does not allow for the proactive management of a portfolio used for asset liability management (ALM) purposes without tainting.

An active ALM strategy makes it difficult for AZOA to make a positive assertion of an intent to hold a given security until a forecasted recovery. Managing the investment portfolios diligently, without 'tainting' the ability to make assertions of intent to hold a security, would become a difficult task.

Question 1: At what unit of account should an investor assert its ability and intent to hold to a forecasted recovery?

Allianz of America believes the requirement of an investor to assert its ability and intent to hold to a forecasted recovery should be removed from paragraphs 10 and 16. We are of the opinion that ability as criterion for recovery judgement is already covered by existing standards. Furthermore the criteria set of ability are impractical in their application.

(a) Intent to hold is inconsistent with current accounting guidance

Allianz of America does not see any guidance provided by the EITF 03-1 on the term intention. In accordance with FAS 115, any security that is not designated as held to maturity nor purchased with the expectation of taking short term profits due to changes in value is categorized as available for sale. Because of this definition, there is no intent to hold nor necessarily intent to sell in order to recognize trading gains. However, there is an expectation of some level of sales. For an insurance company, the levels of sales that occur are dependent on asset liability management strategies. A requirement to assert intent to hold an available for sale security for any period of time is inconsistent with the definition of available for sale as provided in FAS 115.

An assertion of management's intent to hold an available for sale security for impairment purposes should not deviate from the definitions provided in FAS 115. To do otherwise creates an inconsistent approach for the same financial instrument. This deviating approach would not be justifiable by different accounting purposes (impairment test; asset classification) because it would assume different management judgements for the same issue.

(b) Ability criteria are subjective and negatively impact comparability

The proposed EITF does not give a clear definition of "ability". In general, the ability to hold a security is subjective, unless the entity is in a close out or bankruptcy situation or suffers from liquidity constraints, which would prevent the ability from a legal or economic perspective.

Beside the obviously not given ability, we consider the probability of an application of this rule based on judgement as driven by earnings management targets. It is widely held that the requirement of an investor to assert its ability and intent to hold an investment forces adverse consequences on the investor. It is our expectation that industry response to a rules change will introduce divergent management practices all designed to receive optimum results while complying with the new accounting rules. Not only will these divergent management practices make the financial statements of two peer companies incomparable, the rules proposed under the FSP will make a company's financial statements less transparent to the users.

One example for consideration is when two investors own identical assets. One investor chooses to assert the intent and ability to hold and therefore avoids impairment while the second investor chooses to recognize the impairment. In the current year, the activities of these investors are identical except for the reduction in assets that was recognized in the income statement. Assuming no other activity, subsequent period financial statements will require the differences in the balance sheet to diminish by the increased investment income recognized by the investor that chose to recognize the impairment.

In our opinion the requirements for determination of when an asset is impaired should follow the more principle-based approach outlined in IAS 39. It is the intent of the FASB and IASB to provide a unified accounting standard as illustrated in the Norwalk Agreement. The most powerful message that could be sent to back up this intent would be to incorporate the guidance included in IAS 39, effective January 1, 2005, not the establishment of new, questionable criteria.

Taking into account the above, Allianz of America believes the requirement of an investor to assert its ability and intent to hold to a forecasted recovery should be removed from paragraphs 10 and 16. Should you not follow our view we would support the staff position that the unit of account to assert its ability and intent to hold to a forecasted recovery needs to be the single asset level.

Question 2: Although Issue 03-1 states that an investment is impaired if the fair value of the investment is less than its cost, paragraph 16 does not refer to the severity of the impairment. Is

— there a level of impairment that can be considered temporary that would not create the need for an assertion about the ability and intent to hold an investment until a forecasted recovery?

Allianz of America is generally not in favor of a formulaic approach in determining impairments on investment subject to market value changes caused by interest rate/sector spread increases. Rather we prefer the use of judgment provided in IAS 39 to determine whether an investment of this nature is impaired. However, we understand the challenge that exists in communicating how we exercise our judgement to the users of our financial statements. It is our hope that the FASB will not eliminate the use of judgment in the preparation of financial statements and give strong consideration to unification of the FASB and IASB approach to impairments.

In the event the FASB does not agree with our position to use a more principles-based approach, Allianz of America believes any rules-based approach should conclude that no interest-related losses would create the need for an assertion about the ability and intent to hold an investment until a forecasted recovery. Absent a planned sale of an available for sale debt security where the value is not expected to recovery prior to the sale date, it is our position that no write-down should be taken due to interest rate/sector spread increases. To ease administration where sales are planned, we agree that a minor impairment caused by interest rate/sector spread increases should be considered temporary and would not create the need for an assertion about the ability and intent to hold an investment until a forecasted recovery.

Question 3(a): If an interest-rate-impaired and/or sector-spread-impaired security for which the investor previously had asserted its ability and intent to hold to a forecasted recovery is expected to be sold prior to recovery, when is the impairment considered other than temporary?

— As stated previously, Allianz of America believes the requirements for determination of when an asset is impaired should follow the principles outlined in IAS 39. The inclusion of the ability and intention criteria will cause differences in the application of impairment rules and impact the comparability of financial statements, i.e. worsen the transparency of financial statements.

EITF D-44: Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value provides an example for when a decline in fair value below cost is considered other-than-temporary. To quote the EITF, “The FASB staff believes that when an entity has decided to sell an available-for-sale security whose fair value is less than its cost basis and the entity does not expect the fair value of the security to recover prior to the expected time of sale, a write-down for other-than-temporary impairment should be recognized in earnings in the period in which the decision to sell is made.” This decline may have been due to an increase in market interest rates since acquisition, deterioration in the issuer’s creditworthiness, or a change in foreign exchange rates.

When all criteria for qualifying as held-for-sale are met, a potential impairment loss needs to be recognized, not before. An earlier recognition of losses is forbidden as long as not caused by deteriorated creditworthiness. As the position in the Proposed FSP contradicts EITF D-44, we strongly reject the staff position which indicates an earlier loss recognition (EITF 03-1a, 6).

— Question 3(b): If an interest-rate-impaired and/or sector-spread-impaired security for which the investor previously had asserted its ability and intent to hold to a forecasted recovery is expected to be sold prior to recovery, are there circumstances for such a change in ability and intent that would not necessarily call into question the investor’s ability or intent to hold other securities to recovery?

As stated previously, Allianz of America believes the assertion of ability and intent to hold is inconsistent with previously issued accounting guidance. We strongly reject the staff position, which requires management's assertion of ability and intent to hold until recovery. If management decides to hold a security to maturity, the respective asset would have been designated as held to maturity at acquisition. By assigning the asset to available-for-sale management clearly indicates that the decision on the holding strategy is still open and flexibility is desired with regard to the holding strategy. Allianz of America does not see a duty to indicate that holding to any period is intended but to indicate when holding is no longer intended. This might be a slight wording difference but a substantial difference from administrative perspective.

Management's intent needs to be documented for each asset to be sold. Beside legal constraints we do not see how the ability of a company to hold the asset until recovery of value can be proven other than by management judgement or passage of time. All attempts to include fixed criteria for management's ability will affect the Asset Liability Management of companies substantially. Especially the inclusion of tainting rules would worsen flexibility, which is strongly demanded to be competitive in capital markets.

The draft FSP lists three circumstances that, in addition to those listed in paragraphs 8 and 11 of Statement 115 (FAS 115), would not necessarily call into question the investor's ability or intent to hold other securities to recovery. There are other legitimate business considerations that would require the disposal of an asset that was in an unrealized loss position where the company asserted its intent and ability to hold. However, such an enumeration of circumstances will not meet all potential developments and circumstances companies are confronted with in the daily business. We strongly propose to take a more principal based approach instead of providing limited exceptions to the new rules. Please bear in mind that we are looking at available-for-sale securities, not held-to-maturity securities.

The intent of EITF 03-1 was to provide guidance for recognition of impairments that would allow for comparability of financial statements among peers. As proposed, the EITF contradicts commitments made by the FASB and IASB in the Norwalk Agreement and ignores modern Asset Liability Matching and introduces rules. It is the position of Allianz of America that a principles based approach as written in IAS 39 produces better and more transparent financial statements, allowing the ability to actively manage the investment portfolio to produce optimal economic results.

Thank you for the opportunity to provide comments on this important issue.

Sincerely,

Peter Huehne