



GUARDIAN

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Executive Vice President
and Chief Financial Officer

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Technical Director
File Reference No. 1204-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Dear Sirs:

The Guardian Life Insurance Company of America ("Guardian") appreciates the opportunity to comment on FASB Exposure Draft, Proposed Statement of Financial Accounting Standards, "Business Combinations, a replacement of FASB Statement No. 141". Guardian is the fourth largest mutual life insurance company in America with over \$40 billion in assets on its balance sheet. The Guardian has 145 years of experience in providing a variety of financial services that include life insurance, disability income insurance, dental insurance, retirement services, employee benefits, and investments.

Guardian agrees with and supports the FASB in its overall convergence project with the IASB. The Guardian also strongly supports the Board in its efforts to provide a solid framework of accounting guidance that can be used in providing clear and transparent financial statements. We agree that the acquisition method is the most appropriate method to use when accounting for business combinations where it is clear that one company has acquired another company. However, this is not the case in a business combination between mutual companies, which is intended to be a marriage of equals and not one party acquiring the other. Therefore, insurers organized as mutual companies should not be required to account for business combinations with other mutual companies using the acquisition method but instead should continue to use the "as-if pooling method" as allowed for under current accounting guidance.

In reviewing the FASB's basis for conclusions regarding, "Combinations Involving Only Mutual Entities" contained in paragraphs B13 – B17 of the Exposure Draft, we agree with the facts presented by the Board but disagree with the conclusions that it reached.



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The Guardian, like all mutual insurance companies, exists solely for the benefit of its participating policyholders. Guardian's directors primary obligation is to assure the long-term best interests of the current and future participating policyholders are well served. The success of a mutual life insurance company is measured over the long-term by:

1. Net cost of insurance to the participating policyholders (value delivered through the participating dividend formula), and
2. Capital and financial strength of the enterprise to assure its long-term obligations are met.

While policyholders of a mutual insurance company purchase insurance policies in order to receive possible future benefits and receive services associated with those policies, shareholders of a corporation seek to maximize the return on their investment through increased corporate profits and appreciation in the value of the corporation.

The earnings of a mutual insurance company belong to its participating policyholders and are distributed to the policyholders through dividends determined by a specific formula that is filed with the State Insurance Department. Corporate earnings belong to the corporation and its shareholders, and distribution of these earnings is solely at the discretion of the corporation's Board of Directors.

In a merger of mutual insurance companies, unlike mergers involving other types of business entities, neither set of policyholder interests are acquired. Typically, in a merger of mutual insurance companies, the legal interests of the two sets of participating policyholders are separately maintained in separate legal entities. Existing policies and the corresponding assets that support them are segregated into closed blocks of business. Policyholder's rights do not change because of the merger. A policyholder only has rights to and benefits from assets contained in closed block of business not all of the assets of the merged companies. This is highlighted in the declaration and distribution of dividends to policyholders. The dividends for these policyholders are determined by the performance and reserving of the closed block of business and not the performance and reserving of the merged company. The pre-existing company's Board associated with the closed block of business would still approve and declare these dividends.

In addition, insurance law prohibits either set of participating policyholders from being disadvantaged due to the merger of the two mutual companies. Insurance regulators from the states that the companies are domiciled in vigorously review the transaction in order to insure that the merger adversely affects neither set of policyholders.

A business combination of two or more mutual life insurance entities should not be considered an acquisition of one entity by another, but instead, a merger of assets, liabilities and business processes. The separate Board of Directors and separate



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management teams do not view one set of policyholder interests as acquiring the other. The policyholders of each entity are expected to benefit equally through the merger. The company created by the merger is expected to provide improved financial strength and advantages of scale to all of its policyholders.

Accounting guidance requiring the use of acquisition accounting would discourage mergers by mutual insurance companies because one set of policyholders would need to be designated as acquired while regulators, policyholders, company's management and the company's Board of Directors do not view the transaction as an acquisition. Acquisition accounting also does not reflect the true underlying structure of the two companies once the actual transaction is completed. Therefore, we continue to believe that the "as-if pooling method" best reflects the substance of mergers between mutual insurance companies and ask the Board to continue to exclude mutual companies from the proposed standard.

Thank you for allowing me to present Guardian's views on this proposed guidance. Please contact me if you wish to discuss this matter in further detail.

Sincerely,