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Mr. Robert H. Herz, Chair
Financial Accounting Standards Board
401 Merrit 7
Norwalk, CT 06856-5116

Re: File Reference No. 1710-100 -
Exposure Draft: Fair Value Measurements and Disclosures (Topic 820)

Dear Mr. Herz,

The American Council of Life Insurers (ACLI)¹ is pleased to share with you our views regarding the issues related to the Exposure Draft: Fair value Measurements and Disclosures (ED). We understand that this ED is part of the convergence efforts with the IASB and aligns with requirements that are required by IFRS filers for year end 2009. However, we are deeply concerned about the proposed disclosure requirement to report the effect of changes in reasonably possible significant alternative inputs for Level 3 for each class of assets and liabilities. We offer specific observations in our responses to questions 1 and 2. We also feel the effective date for the sensitivities needs to be deferred until at least the third quarter of 2010 to allow companies to effectively deal with the many implementation challenges presented with the sensitivities.

Issue 1: With respect to the disclosure of the effect of changes in reasonably possible significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes also referred to as sensitivity disclosures) the Board is seeking input from:

1. Financial statement preparers about their operationality and costs
Response:
 - The disclosure requirement will result in extensive work and cost to complete. By requiring this sensitivity analysis to be included in the Notes to the Financial Statements, the disclosures will be subject to audit and the Sarbanes-Oxley Section 404 controls. This requirement will further add to the cost of compliance. We recommend that the Board consider working with the SEC to include any sensitivity analysis in the Management's Discussion and Analysis.
 - Estimated fair values for assets in Level 3 are generally obtained from third party pricing vendors and broker quotes. The proposed sensitivities are not currently provided by these

¹ The American Council of Life Insurers represents 340 member companies operating in the United States, of which 332 are legal reserve life insurance companies, and 8 are fraternal benefit societies. These 340 member companies account for 93% of total life insurance company assets, 94% of the life insurance premiums, and 94% of annuity considerations in the United States.

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sources and it is uncertain whether or when the information would be available from third party sources.

- The calculation of sensitivities will require the development of new valuation models for assets that are currently priced by pricing services or brokers and existing models will need to be enhanced to accommodate the requirements. Additional processes will need to be developed to determine the reasonably possible alternative inputs, and may require obtaining substantial additional information from third party sources. The number of valuation model runs necessary to produce the sensitivities using multiple reasonably possible alternative inputs will grow exponentially when all combinations of inputs are considered. During periods of inactive markets the increase in nonmarket inputs will expand and the determination of reasonably possible alternative inputs will become very subjective.
- There will be initial development costs as well as ongoing costs associated with the additional calculations and related review and control procedures necessary to produce the sensitivities and expanded disclosures.
- Reasonable lead time is needed to properly implement the new calculations and develop the disclosures.
- Some of our member companies manage private equity investment companies that have fair value measurements categorized as Level 3 and these companies would also be significantly affected by these additional disclosures.

2. IFRS financial statement preparers about the approach they plan to use to comply with a similar disclosure requirement in IFRS.

Response:

- Companies preparing their financial statements in accordance with IFRS are finding it difficult to comply with the sensitivity requirement for certain assets reported as Level 3 valued using non corroborated broker quotes. Since companies do not value these securities using their own models they will not have the ability to adjust specific input assumptions. It will also be impracticable if not impossible to obtain specific sensitivities from the brokers. The standard will need to be applied using a practical approach that allows for an aggregate model to be used for various asset categories with an adjustment made to the most significant non-market input such as the discount rate.
- For an asset such as private equity funds and hedge funds the diverse nature of the holdings results in a large number of non-market inputs none of which may be individually significant to the total valuation of the fund. Companies do not have detailed information about the models or inputs used by the funds to value these assets. Finding an aggregate approach that can be applied in a practical manner is proving very challenging.

Issue 2: With respect to the reconciliation (sometimes referred to as a rollforward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosure of purchases, sales, issuances and settlements during the reporting period. Is this proposed requirement operational? If not, why?

Response:

- In general this information is available in various systems used to manage the assets and liabilities so it is a matter of developing reports to extract the required information. If the board requires that all transfers occur at the beginning of a period, rather than maintaining the current practice of permitting an entity to choose either the beginning or the end of the period then we recommend changing the effective date for this provision to the beginning of an annual period.

Issue 3: Is the proposed effective date operational? In particular:

1. Will entities be able to provide information about the effect of reasonably possible alternative inputs for level 3 fair value measurements for interim reporting periods ending after March 15, 2010?

Response:

- We request that this requirement be effective no earlier than for periods ending after September 15, 2010.
 - The proposed ED changes will require considerable effort and lead time to implement and since it will not be issued until late in the year there will not be enough time given the demands of year end reporting to complete the work necessary to develop the required models and alternative input assumptions. When the IASB issued similar requirements under the amendments to IFRS 7, the transition guidance provided a more reasonable time period before the effective date of the disclosures, which allowed companies to work through operational issues to implement the new disclosures.
 - Since the proposed disclosures are in the financial statement footnotes they fall under the scope of Sarbanes-Oxley Section 404 controls and will require time for auditor review of models and identified non-market inputs as well as for companies to develop the documentation to support a proper control environment.
 - The expanded disclosures pose an incremental reporting burden as companies are already challenged to meet the requirements of FAS 166 and 167. Also, the insurance industry will be expending resources on reviewing and commenting on the IASB and FASB's financial instruments and insurance contracts exposure drafts during the first half of 2010.
2. Are there any reasons why the Board should provide a different effective date for nonpublic entities?
- Response
- Yes, it would seem appropriate to give non public companies at least a year lead time and make this effective for fiscal years ending after December 15, 2010.

We appreciate your consideration of our recommendation to include the sensitivity analysis in Management's Discussion and Analysis and deferral of the effective date in recognition of the implementation challenges associated with the sensitivities.

Sincerely,



Michael Monahan