



September 7, 2010

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: File Reference No. 1830-100 - *Proposed Accounting Standards Update – Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (“Proposed ASU”)

Dear Mr. Herz:

The Group of North American Insurance Enterprises (“GNAIE”)¹ is pleased to provide comments to the Board on its Proposed ASU designed to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (“IFRS”). We understand the Board’s objective of developing common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs.

We agree with the clarifications within the Proposed ASU to conform the fair value measurement guidance between U.S. GAAP and IFRS. However, we disagree with the proposed amendments to the disclosures for Level 3 measurements (measurement uncertainty disclosure) and for including the level classification for financial instruments disclosed at fair value. GNAIE does not believe the proposed measurement uncertainty disclosure would provide decision useful information that is not already conveyed to financial statement users by classifying the fair value measurement as Level 3, which denotes the use of significant unobservable inputs and more management judgment in determining fair value.

Additionally, we urge the Board to continue to evaluate the remaining differences in the fair value measurement guidance issued by the FASB and IASB and work together to eliminate the remaining differences in the fair value measurement guidance, specifically as it relates to day 1 gains/losses and the use of net asset value (“NAV”) of investment companies as a practical expedient—both of which we support the FASB’s existing guidance. We support the FASB’s existing guidance on day 1 gains/losses that does not restrict when these gains or losses should be recognized based on the inputs (observable or unobservable) used to determine fair value. There is insufficient justification on why fair value

¹ GNAIE is a trade organization comprised of leading insurance companies including life insurers, property and casualty insurers, and reinsurers in Bermuda, Canada and the United States. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations, and all are major participants in the US and emerging markets.

Jerry M. de St. Paer
Executive Chair

Douglas Wm. Barnert
Executive Director

Group of North American Insurance Enterprises
40 Exchange Place, Suite 1707
New York, NY 10005
UNITED STATES

++1-212-480-0808
info@gnaie.net
www.gnaie.net



measurements with unobservable inputs should not be used to measure day 1 gains/losses but similar measurements of fair value for instruments are required and result in gains or losses in subsequent periods. The practical expedient that can be used for determining fair value using the NAV in existing FASB guidance should also be incorporated into the guidance under IFRS to reduce the operational costs associated with evaluating and providing support on how an entity determined the NAV represents fair value. Additionally, we believe the elimination of these differences would further the Boards' convergence efforts and result in common fair value measurement standard where no significant differences would remain.

Measurement Uncertainty Disclosure

We believe the proposed measurement uncertainty disclosure is unnecessary and will simply add to already lengthy, detailed fair value disclosures.

GNAIE does not believe the benefits of providing the recommended measurement uncertainty disclosure outweigh the additional cost of their production. While we understand the Board's desire to align the required disclosures about fair value measurements with those provided by IFRS reporters we would ask the Board to first evaluate whether global interpretation and application of the Level 3 classification guidance and existing Level 3 sensitivity disclosures are being interpreted consistently on a global basis by reporting entities that follow IFRS. Notwithstanding the results of your evaluation, we believe enhanced disclosures for Level 3 measurements should be qualitative and focus on the potential variability of reasonably possible significant inputs, the causes of that variability and how the reporting entity arrived at the reported fair value.

In addition, the measurement uncertainty disclosure may not work well for valuations that are dependent on multiple correlated inputs. Testing the correlations for an instrument with multiple unobservable inputs requires two or more additional correlation assumptions per input and, at least theoretically, the effects of cross correlation. Correlations are not static, and the more level 3 inputs, the more complicated the calculation. The number of combinations that would have to be modeled becomes potentially endless, and the range of valuation results becomes so wide as to be potentially meaningless. Also, because the requirement is to test unobservable inputs, these sensitivities would not reflect the correlation with observable inputs, which could be misleading given their interdependencies.

If the measurement uncertainty disclosure is required, we recommend the FASB work with the SEC to incorporate this disclosure requirement as component of MD&A as opposed to the financial statements. We understand IFRS requires the inclusion of information that is generally more subjective or judgmental within the financial statements, however we believe a more appropriate placement for this type of disclosure is in MD&A. Furthermore, if the information were required in our publicly filed financial statements, entities would incur significant costs related to the documentation and testing of Sarbanes Oxley Section 404. Additionally, reporting entities would likely incur additional costs as a result of the external audit process, where auditors would be required to independently verify disclosures that are based on significant management judgment and are based on alternative inputs that may not be easily verified using readily available, third-party information.



Asset Issues

The proposed measurement uncertainty disclosure will be time consuming and potentially costly for many preparers who extensively utilize third party pricing services or broker quotes to aide in the valuation of certain instruments when these instruments are classified within Level 3 of the fair value hierarchy. For these instruments, an entity would need to develop internal models or utilize additional information/services from third parties (both of which would incur significant costs) to comply with the measurement uncertainty disclosure, if the information is even available to produce a model since many or our members only utilize a broker quote when they are unable to produce an estimate of fair value internally or when the instrument trades so infrequently that very few inputs are readily available. Although reporting entities bear the ultimate responsibility for fair value measurements provided in their financial statements, a substantial amount of the detail required to complete the proposed measurement uncertainty disclosure is not readily available. More specifically, information used to produce fair value estimates for financial assets in Level 3 of the fair value hierarchy is often obtained from independent third-party pricing vendors (“pricing services”) and broker quotes that provide estimates for individual CUSIP’s. As a result, to produce the required disclosures, a typical reporting entity would need to obtain substantially more information from their pricing services and brokers concerning the specific quantitative inputs used to price each CUSIP and have the pricing service or broker provide another valuation as a result of changing the unobservable inputs or attempt to replicate the information with its own systems. This information is not currently provided and it is uncertain whether or when it might be possible to obtain from pricing services and brokers. Regardless of whether the information could be provided by pricing services or brokers, a reporting entity would incur significant additional costs to comply as a result of these new disclosure requirements.

Liability Issues

For many insurance type liabilities any measurement uncertainty disclosure would be based on very large numbers of reasonably possible scenarios, multiple unobservable inputs and correlations. The unobservable inputs and correlations considered may not be comparable among reporting entities, and therefore would be of limited use in competitor or industry comparisons. All of the above noted issues become infinitely more complicated for insurance liabilities measured at fair value, due to their dependence on significant actuarial inputs in preparing reasonably possible alternatives. Many of the significant unobservable inputs include but are not limited to: own credit, implied market volatility, expected lapse rates and risk margins. Determining the impact of reasonably possible alternative inputs per the Proposed ASU could require complex valuation techniques such as probability weighted scenarios or stochastic modeling. To perform an appropriate measurement uncertainty disclosure, numerous administrative and IT systems would be required and the calculations will be costly to produce. Moreover, even if the modeling is possible, the resulting range of possible outcomes is unlikely to be useful, due to the inherent limitations described above.

Other issues

Due to the diverse nature of Level 3 instruments, certain asset types such as private equity funds and hedge funds measured at fair value (e.g., in a pension plan’s financial statements) are valued using significant non-market observable inputs. Moreover, because reporting entities do not have sufficient granular information about the models or inputs used by the funds to value these assets and because



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there is typically a lag in reporting of financial information from the funds, we believe compliance with the measurement uncertainty disclosure requirements of the Proposed ASU could be very challenging.

In addition, we believe the requirement to include the fair value hierarchy level classification for instruments that are only required to be disclosed at fair value does not provide useful information and should not be included in the Proposed ASU. The current disclosure requirements require a description of the valuation methodology used and should provide sufficient information for financial statement users. Providing the fair value hierarchy level assignment would not provide any additional useful information and should not be required.

With respect to the proposed effective date, if the Proposed ASU is modified to exclude the measurement uncertainty disclosure, we believe the effective date could be the first period beginning after the final guidance is issued. If the measurement uncertainty disclosure is included in the final guidance, we believe the effective date should be no sooner than 12 months from the date the final guidance is issued to provide constituents sufficient time to develop and execute implementation plans that will be necessary given the nature of the information involved in the measurement uncertainty disclosure.

If the Board desires a further discussion of our views please contact Doug Barnert at (212) 480-0808.

Sincerely,

A handwritten signature in black ink that reads "Jerry de St. Paer". The signature is written in a cursive, flowing style.

Jerry de St. Paer
Chair, GNAIE

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