



Group of North American Insurance Enterprises

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September 25, 2012

Technical Director – File Reference No. 2012-200
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB Exposure Draft, *Disclosures about Liquidity Risk and Interest Rate Risk* (“ED”)

Sent via email to director@fasb.org

The Group of North American Insurance Enterprises (“GNAIE”)¹ is pleased to provide comments to the Financial Accounting Standards Board (FASB) on its ED with the goal of providing users of financial statements with more decision-useful information about entity-level exposures to liquidity risk and interest rate risk.

We appreciate the Board’s efforts to address a very difficult and complex area of disclosures relating to liquidity and interest rate risk. Given the varying ways these risks arise and how entities manage them, any related disclosure requires a flexible and principles-based approach to ensure they are reflective of how an entity manages risks, rather than prescribing specific quantitative information. In order to provide decision-useful disclosures for liquidity and interest rate risk, disclosures should seek to leverage how an entity manages and monitors these risks, which in many cases includes forward-looking estimates that are not appropriate for financial statement footnotes.

GNAIE does not believe the proposed disclosures within the ED would provide decision-useful information to users. Furthermore, certain aspects of the proposal could likely lead to information that is misused by users and be misinterpreted and misleading to users. As a result, we believe the ED needs significant modification in the scope, timing, and disclosure requirements. The proposed disclosures, in their current form, take a standardized approach that will compromise the relevance and usefulness of information in order to provide seemingly comparative quantitative information that lacks both comparability as well as relevancy in terms of presenting information that captures an entity’s interest rate and liquidity risk.

In reviewing the proposed disclosures, we identified several issues that will result in incomplete, inaccurate, or misleading information related to an entity’s liquidity and interest rate risk. Below is a summary of the key issues identified that impair the usefulness of the proposed disclosures:

1. Scope

- 1.1. Financial Institution definition inappropriately scopes in all insurance
- 1.2. Inclusion of all financial instruments, even where assets may be isolated to only satisfy certain obligations

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.

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- 2. Liquidity Maturity Gap Analysis**
 - 2.1. Focus on carrying value and allocation of carrying value to time intervals
 - 2.2. Comparability amongst companies will not exist given the significant underlying assumptions
 - 2.3. Not actually used by companies to manage liquidity risk (i.e., missing many other sources of liquidity such as on-going premiums, interest and dividends on investments, etc.)
- 3. Available Liquid Funds**
 - 3.1. Limitations/restrictions on asset cannot be sufficiently disclosed without negating any usefulness of the amounts presented
- 4. Repricing Gap Analysis**
 - 4.1. Most of an insurers investments are interest bearing while most insurance liabilities do not have a contractual yield component
 - 4.2. Requirement to disclose contractual yield as opposed to effective yield
 - 4.3. Reinvestment rates not incorporated into the tables
 - 4.4. Not actually used by insurers to manage interest rate risk
- 5. Interest Rate Sensitivity**
 - 5.1. Impact on net income and equity would not accurately capture interest rate risk
 - 5.2. Inability to factor in management's reaction to each scenario
 - 5.3. Impact captured for each interest rate sensitivity is not clear and could lack comparability

We believe these issues need to be addressed in order to meet the Board's objective of providing decision-useful information to investors. In the following section, we offer recommendations that will address certain of the issues above to result in more decision-useful disclosures regarding an entity's liquidity and interest rate risk. However, the recommendations are made as a collective and cohesive list and may not provide decision-useful information if only certain aspects are incorporated into the final standard.

Discussion of Recommended Improvements

Below we offer our recommended improvements to the ED in order to maximize the usefulness of the disclosures that will result in minimizing costs to preparers as a result of better aligning the requirements with information used by management to evaluate these risks, where relevant. In summary, we believe the proposed disclosures should only be applicable for public entities; should not include a non-principles-based blanket inclusion of all insurance companies and should be incorporated, with modification, into the SEC disclosure requirements for MD&A.

The modifications recommended would include changing the scope of which entities (or reportable segments) would be required to present certain disclosures as well as changing the information presented within certain proposed disclosures to better align with the way entity's manage or monitor risks that are relevant to the different components of their businesses. Additionally, given the current status of the insurance contracts project where significant changes in the measurement of an insurer's liabilities may occur, we recommend deferring the effective date and re-deliberations of the disclosure proposal until the effective date of any finalized insurance contracts standard is determined.

Overall Scope of Financial Institutions Disclosures

The specific financial institution disclosures proposed in the ED are intended to be applied to entities or reportable segments for which the primary business activity is to do either of the following: (a) Earn, as a primary source of income, the difference between interest income generated by earning assets and interest paid on borrowed funds, or (b) Provide insurance.

We do not agree that all insurers should automatically be required to prepare the extensive financial institution disclosures as there are several situations that can be cited where an insurer's business

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activities are not consistent with the business activities defined in criteria (a) and thus the disclosures would not be decision useful.

For example, our property and casualty company members' do not earn as a primary source of income the difference between interest income and interest paid. Although investment performance is an important component of net income, it is not the primary driver of profitability. Additionally, the investment portfolio of property and casualty insurers is generally constructed to have a sufficient amount of liquidity. The portfolio is typically composed of high quality bonds (including U.S. Treasuries) and could include significant amounts of shorter term investments compared to other financial institutions. Generally, liquidity is not an issue since the flows from premiums, interest income and other operations are used to settle claims. Asset sales would only be needed to raise funds to meet multiple significant insurance obligations (e.g., significant catastrophic events) and in this case having sufficient assets would be the main concern.

Given the financial institution disclosures are to be applied to entities or reportable segments and given private companies are not required to identify reportable segments, we also believe private companies should not be within the scope of the proposed ED. Below we also discuss other reasons why we believe private companies should be excluded from providing these disclosures.

Footnotes vs. MD&A Disclosure

While we recognize the FASB does not have the authority to make changes to SEC disclosure requirements, we would suggest the Board work with the SEC to develop these requirements and share the insights from the feedback received from comment letters and informal outreach.

There are certain aspects of the proposal that would require significant incremental costs for non-public reporting entities. For example, the requirement to evaluate reportable segments for purposes of determining the scope for certain disclosures would require non-public entities to first determine reportable segments, which is currently not required. Additionally, many non-public entities may produce financial statements where users may not utilize or need enhanced disclosures for liquidity and interest rate risk. For example, many non-public subsidiaries of public entities may need to prepare separate company financial statements for purposes of admitting those subsidiary investments as an asset for certain regulated insurance companies. The inclusion of a requirement to provide disclosures of liquidity and interest rate risk for those non-public subsidiaries would result in additional costs to preparers through higher audit costs and increase in time/resources without any added benefit to the limited users of those financial statements.

Additionally, for public entities the inclusion of the proposed disclosures into footnote requirements will result in significantly higher costs compared to providing similar information within the SEC's MD&A disclosures. The incremental costs to footnote disclosures compared to MD&A disclosures include higher audit costs and a significant strain on existing resources and processes to produce the necessary information with sufficient time for review, audit, and XBRL tagging when incorporating this information into footnote disclosures. We believe users of public entities could benefit from certain aspects of the proposed disclosures being disclosed within MD&A while avoiding these significant incremental costs to preparers, which are ultimately costs borne by investors.

Along with moving the proposed disclosures, with modification, to the SEC's MD&A disclosure requirements, we would recommend these disclosure only be required on an annual basis and updated quarterly as required under current SEC disclosure requirement (i.e., provide if significant changes have occurred since year-end). By removing the quarterly disclosure requirement, preparers would benefit from the additional time available to prepare the necessary disclosures that would reduce the strain on

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existing resources and would lessen the costs or need to add additional resources to comply with the proposed disclosure requirement on a quarterly basis. Many of the risks captured in the proposed disclosures may not change significantly for many insurers to warrant the costs of preparing the disclosures on a quarterly basis.

The combination of removing the quarterly disclosure requirement and incorporating the proposed disclosures, with modification, into the SEC's MD&A disclosure would significantly decrease the costs to preparers while providing incrementally useful information to users of public companies. For the reasons stated above, we believe the benefits to certain users of non-public entities would not outweigh the significant costs to non-public entity preparers. At a minimum, we believe consideration of the proposed disclosures for non-public entities should be delayed and reconsidered once the FASB's Private Company Decision-Making Framework project is completed.

Additional Recommended Modifications/Improvements

The recommendations below are based on the recommendations that these disclosures be presented within MD&A and therefore would be only applicable to public entities that are required to comply with the SEC's MD&A disclosure requirements. Absent inclusion of these disclosures within MD&A, our recommendations herein would change significantly.

Definition of Financial Institution

The proposed disclosures define financial institutions in a way that broadly includes entities (or reportable segments) that provide insurance and result in all insurers, regardless of the type of insurance, being required to disclose information that may not be consistent with how management evaluates liquidity and interest rate risk. For example, the requirement would result in P&C insurers disclosing the expected maturity of their investments and their liabilities despite the fact that asset-liability matching is not a key metric or objective reviewed when evaluating liquidity risk or managing interest rate risk.

Furthermore, asset-liability management (Liquidity Gap analysis) may be relevant for certain liabilities whereas the Repricing Gap analysis would be less useful if the liability does not have a contractual interest component. As a result, we believe the financial institution definition should be removed since the proposed disclosures for financial institution are relevant in different circumstances that cannot be defined in one definition.

As noted in our recommendations in the Liquidity Risk Disclosures and Interest Rate Risk Disclosures sections below, we believe it is more appropriate to identify a principle that would require management judgment to be used when determining if a particular risk disclosure is required based on when a the risk is significant and relevant. Additionally, we also believe management judgment should be used to determine the level of aggregation/disaggregation that is necessary to provide decision-useful disclosures without any requirement to agree back to the carrying value, as the current carrying value may not be a relevant attribute.

Liquidity Risk Disclosures

We recommend removing the proposed Liquidity Maturity Gap disclosure requirement in its entirety and suggest the Available Liquid Funds disclosure be combined with the existing contractual obligations disclosure within MD&A, when liquidity risk is significant to the entity and it provides relevant information to financial statement users. The combination of the Available Liquid Funds and the expected cash flows from the existing contractual obligations disclosure in MD&A should provide sufficient information to evaluate an entity's near-term liquidity risk. Along with recommending inclusion of the Available Liquid Funds disclosure within existing MD&A disclosures, we also recommend including a principle that would enable entities to use judgment in determining the level of

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aggregation for available liquid funds to be presented as well as determining whether the tabular disclosure is needed or if existing disclosures already provide sufficient information on liquid funds for users to understand liquidity risks.

The proposed Liquidity Maturity Gap analysis appears to provide information on longer-term asset-liability matching of expected maturity. Even if the proposed disclosures were modified to include expected cash flows as opposed to carrying value, the tabular presentation of amounts and time intervals would give a false sense of precision and comparability that does not exist. Accordingly, we do not believe this disclosure could be easily understood by analysts and compared across companies without producing misleading results due to the differing underlying assumptions used by companies as well as different underlying product/business mix.

While we recognize asset-liability matching may be important aspects for certain insurance products, the tabular presentation of seemingly comparable information could be misused or misinterpreted due to the lack of sufficient understanding by users. The complexity of these risks and underlying assumptions are demonstrated in the extremely detailed filings that certain life insurance companies produce, confidentially, for regulators related to asset adequacy testing.

In the following discussion of our recommendations related to interest rate risk disclosure, we note that other summary level metrics could be used to convey information on asset-liability management without providing standardized tabular disclosures that could be misleading, misinterpreted, or misused.

Interest Rate Risk Disclosures

We recommend a principle be developed for determining when an entity should report the interest rate risk disclosures and should be based on if the entity periodically evaluates/manages interest rate risk and should only be applicable when this risk is significant to the entity. The corresponding disclosure requirement should then be based on information that an entity believes is relevant when evaluating interest rate risk. For example a principle could be identified that requires an entity to disclose information when management evaluates asset-liability matching or engages in asset-liability management and such risk is deemed significant. The corresponding disclosure requirement could simply state that an entity should disclose information to enable users to better understand this risk and how the entity evaluates the risk along with quantifying summary level metrics, when relevant, such as the measure of duration that is used to report information to management relating to this risk.

While summary metrics appear to provide much less information than the tabular charts included in the ED, the resulting information could be very similar and may provide metrics that are more relevant and easily understood as compared to very detailed quantitative tabular disclosures. For example, duration would provide a measure of timing of asset and liability cash flows and sensitivity to interest rate changes. Other metrics may also be relevant and should not be precluded.

Existing market risk disclosures in MD&A include interest rate risk as well as corresponding sensitivity analysis and disclosure of how an entity manages these risks. We do not believe the proposed Repricing Gap analysis or Interest Rate Sensitivity disclosure would provide incremental decision-useful information and, therefore, should be removed.

The proposed Repricing Gap analysis appears to be most appropriate when liabilities have contractual interest crediting rates. While certain insurers have these types of products, the relative proportion of these liabilities could be insignificant and may not represent a significant risk for an insurer. Additionally, in many cases insurers have discretion on setting crediting rates in certain products that further mitigates repricing risks. However, the proposed disclosure requirements would still require insurers to present this information despite the risk potentially not being that significant. Accordingly,

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our recommendation above to include a principle would enable entities to describe whether repricing risk is significant and disclose similar information based on how they manage/evaluate the risk without prescribing a particular tabular presentation be used that may not accurately portray an entity's repricing risk.

While we recognize the relevance of the impact on net income and equity from interest rate sensitivities, the impact on net income and equity do not provide a comprehensive view of the interest rate risk of insurers and does not align with how management monitors or evaluates this risk across the organization, which may vary by product/business line. As indicated above, we recommend removing the interest rate sensitivity requirement due to these limitations in the proposed disclosures and the fact that existing market risk disclosures in MD&A provide similar information.

Scope of Instruments Required To Be Included

In evaluating an entities liquidity risk and interest rate risk, certain assets or liabilities may be excluded due to the unique characteristics of the instrument or structure that effectively limit the exposure of the entity to interest rate and liquidity risk. Examples of these assets include Separate Account assets and liabilities and certain consolidated securitization entities (or VIEs). We recommend the proposal modify the requirements to permit companies to exclude and separately disclose instruments that are not significant in relation to evaluating liquidity or interest rate risk. As a result, the costs for preparers would be reduced and the relevancy of information disclosed would increase.

Summary of Recommendations Discussed Above

| | FASB Proposal | GNAIE Recommendation |
|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Entities in Scope | All reporting entities applying U.S. GAAP | Public entities required to comply with SEC's MD&A disclosures |
| Presentation of Disclosures | Footnotes | MD&A |
| Disclosure Timing | Quarterly | Annually unless significant changes occur |
| Instrument Scope | All financial instruments | All financial instruments except for financial instruments an entity does not include in their analysis of liquidity or interest rate risk |
| Liquidity Disclosures: | | |
| Liquidity Maturity Gap analysis | Financial institutions present carrying value by time interval | Remove proposed disclosure |
| Available Liquid Funds | All entities present liquid funds separately for parent, subsidiaries and broker/dealers | Incorporate into existing MD&A liquidity disclosures with principle on when and how information is disclosed, if liquidity is a significant risk |
| Cash Flow Obligations | Non-financial institutions disclose undiscounted expected cash outflows by time interval showing adjustment to equal total carrying value | Remove proposed disclosure as it is duplicative of existing contractual obligations table in MD&A |
| Interest Rate Risk Disclosures: | | |
| Repricing Gap analysis | Financial institutions disclose carrying value by time interval and corresponding contractual yield for each time interval | Remove proposed disclosure and incorporate a principle into existing MD&A disclosures to require entities to prepare interest rate risk disclosures when relevant and require an entity disclose information that aligns with risk |

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| | showing duration by class of instrument | management metrics reviewed by management to enable users to better understand interest rate risk |
| Interest Rate Sensitivity | Financial institutions disclose impacts on net income and equity over the next 12 months from 8 different scenarios | |

Effective Date

As stated above, we believe the Board should delay the determination of the effective date until the finalization of the insurance contracts project. Given the significant interaction of the information needed to prepared the proposed disclosures and the information that may be required when measuring insurance liabilities under the Insurance Contracts project, we believe the Board would benefit from re-deliberating the proposed disclosures at that date to then evaluate what incremental costs would be incurred by preparers to comply with these disclosures. If the Board proceeded with the proposed disclosures prior to the finalization of the insurance contracts project, the cost-benefit analysis of the proposal could be significantly impacted and may result in additional costs being borne by preparers that could otherwise be avoided.

If the Board determines the proposed disclosures are needed in the near-term, we recommend excluding insurance liabilities from the scope of the disclosures or excluding insurance companies from the disclosure requirements due to the lack of providing useful information. The exclusion of insurance liabilities would result in the disclosures effectively being limited to providing information related to investments and an entity’s own debt and as a result would not be meaningful to prepare at this time.

Implementation Uncertainties

There are several aspects of the proposed disclosures that are not clear with respect to what is required. Most notably, it is unclear whether indirect impacts should be considered when preparing the Interest Rate Sensitivity disclosures. Additionally, it is not clear whether non-contractual interest-bearing insurance liabilities are required to disclose yield and duration within the Repricing Gap disclosure. Accordingly, it is difficult to identify the amount of time necessary to implement the proposed disclosure requirements. However, in general, if the Board requires the disclosures as proposed, we believe, given systems modifications needed, implementation of new SOX controls and control and reporting infrastructures, an implementation time of 2 years or more would be needed.

In addition to our comments above, we have also provided responses to the Board’s questions in the ED and have included our responses as an appendix to this letter.

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

Sincerely,

Justin Etheridge
 Chair, GNAIE Financial Instruments Subcommittee

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APPENDIX

QUESTIONS FOR RESPONDENTS

Questions for Preparers and Auditors – Liquidity Risk

Question 1: For a financial institution, the proposed amendments would require a liquidity gap table that includes the expected maturities of an entity's financial assets and financial liabilities. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Yes. There are certain aspects of the proposal that are not clear. Depending on how certain aspects are clarified, there could be more or less operational concerns/constraints. For example, the disclosure shows carrying value, which represents fair value for many of our financial assets. Disclosing carrying value by expected maturity may require an allocation of the carrying value into different time intervals for instruments where principal amounts are paid over time. However, the proposed requirements are not clear how instruments are expected to be presented within the disclosure. While the guidance references factoring in prepayments when presenting loans, the guidance also indicates that derivatives should not be presented based on the expected payments but rather should be shown entirely in the expected maturity time interval. This inconsistency in how derivatives should be presented as opposed to loans makes it difficult to determine the basis for presenting the carrying value in the disclosure. This implementation issue becomes even more complex when evaluating insurance liabilities where future premiums are anticipated and/or claims are paid out over time such that it is not clear how an entity would determine which time interval(s) the carrying value of the liability should be presented.

Regardless of how the carrying value is presented, the resulting information will not provide decision-useful information with respect to the risks and uncertainties an entity may encounter in meeting its financial obligations given the mixed measurement of an insurers assets and liabilities.

In addition to the uncertainties in compiling the disclosures, entities may not currently have the underlying information in a timely manner to facilitate quarterly reporting of this tabular disclosure. Entities would incur significant costs to accelerate the timing of the underlying information that would be needed to support the proposed disclosures despite the lack of useful information being disclosed.

Question 2: For an entity that is not a financial institution, the proposed amendments would require a cash flow obligations table that includes the expected maturities of an entity's obligations. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

No. We do not expect significant operational concerns or constraints in complying with the proposed cash flow obligations table as the scope of what is included under the proposal would be relatively small and would likely not be significantly different than what is currently required to be presented within the existing SEC's MD&A

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contractual obligations disclosures. As noted in our comments within the letter, we recommend removing this proposed disclosure given the significant duplication of information that is already presented within the existing contractual obligations table within MD&A.

While insurers are broadly included in the scope of the 'financial institution' disclosures, the scope of the financial institution disclosures appears to first apply at a reportable segment level and could result in certain reportable segments for insurers being considered non-financial institutions (such as fee business or asset management business). If the Board moves forward with the proposed disclosures, we recommend the Board clarify how the scope of the proposed disclosure should be applied to clarify whether an entity must first evaluate the financial institution disclosure at the reportable segment level or if an entity would first evaluate the financial institution definition at the entire reporting entity. As currently written, it is unclear whether an insurer would be required to prepare the cash flow obligations disclosure.

Question 3: The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. *Expected maturity* is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term *expected maturity* is more meaningful than the term *contractual maturity* in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.

Yes. While we agree that that expected maturity is more relevant than contractual maturity, we disagree with the use of carrying value in evaluating liquidity risk. The carrying value is not relevant when evaluating the liquidity risk associated with an insurer's assets and liabilities. Given the mixed measurement attributes between assets and liabilities for insurers, carrying value may provide a misleading depiction of an entity's asset-liability matching. While liquidity risk may be managed differently depending on the entity as well as the product/business, management evaluates liquidity risk based on expected cash flows.

Given the forward looking estimates made by entities in evaluating expected cash flows, any relevant disclosures for liquidity risk would only be appropriate within the SEC's MD&A disclosures where safe harbor provisions apply to forward looking information, as opposed to the financial statement footnotes where such protections are specifically excluded.

Question 4: The proposed amendments would require a quantitative disclosure of an entity's available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

No, we do not foresee any significant operational concerns or constraints in preparing the proposed Available Liquid Funds disclosure. As noted in our letter above, we recommend moving the Available Liquid Funds disclosure to MD&A in order to accompany the existing liquidity disclosures that include the contractual obligations table.

Omitted Question 5 For Depository Institutions

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Question 6: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?

No. As stated in our comments within the letter, we do not believe the proposed disclosures provide decision-useful information regarding our entity's exposure to liquidity risk and do not align with how insurers manage these risks. In order for information related to liquidity risk to be relevant, the evaluation must be made on projected cash flows that incorporate forward looking estimates that are inappropriate for inclusion in footnote disclosures. Additionally, the liquidity risk of an insurer may already be captured in external credit ratings or capital ratios/measures that are already provided or available for most public company filings. Accordingly, we do not believe the proposed disclosures in their current form would provide sufficient incremental decision-useful information related to the liquidity risk to justify the costs that would be incurred by preparers.

Time Intervals

Similar to our comments above supporting the recommendation to only require the proposed disclosures on an annual basis due to lack of significant changes in these risks, we would recommend the time intervals applicable in the disclosures exclude quarterly time intervals. We do not believe the quarterly time intervals provide sufficient benefits to outweigh the costs to produce this level of disclosure. For certain liabilities, it would require additional costs and time to further break down information that is typically evaluated in yearly increments to compile the information on a quarterly basis. Furthermore, the information on Available Liquid funds should provide sufficient information to address whether there would be any liquidity issues within the near-term when evaluating near term obligations in the next year without the need for quarterly detail.

Omitted Questions 7 to 11 for Users

Omitted Question 12 For Depository Institutions

Questions for Preparers and Auditors – Interest Rate Risk

Question 13: The interest rate risk disclosures in this proposed Update would require a repricing gap table. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Yes. There are numerous application uncertainties with respect to this proposed disclosure that make it difficult to address what specific operational concerns or constraints exists. For example, would yield and duration be required for insurance liabilities that do not have a contractual interest feature, such as term life insurance or long-term care. If yield is required to be disclosed for these liabilities, what would the yield represent (current portfolio yield, locked-in yield assumption use to set long duration reserving calculation under existing U.S. GAAP, etc.)? There are also uncertainties around what yield should be presented for liabilities with contractual interest features. Would yield be based upon the current crediting rate, guaranteed crediting rate? Also for crediting rates indexed to equity indexes, what yield should be disclosed? Regardless of how the application issues are addressed, there would still likely be operational constraints that would exist.

Even with all of these application questions answered, the meaningfulness of this disclosure would still be questionable since many insurance liabilities do not have a contractual interest-crediting feature. Where there is a contractual crediting feature, repricing risk may still be fairly insignificant to an entity as a result of discretion that can be used in determining the crediting rate. Accordingly and as discussed in our letter above, we recommend this disclosure be removed and replaced with a principle that would require an entity (when relevant) to disclose information related to repricing risk with MD&A based on how an entity evaluates/manages this risk.

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If the Board decides to require such a repricing disclosure, at a minimum we would recommend presenting effective yield, as opposed to contractual yield. While contractual yield may be easier to capture and report, effective yield (especially for assets) is a more appropriate measure of the yield and would better align with yields reviewed by management.

Question 14: The interest rate risk disclosures in this proposed Update would include a sensitivity analysis of net income and shareholders' equity. Do you foresee any significant operational concerns or constraints in determining the effect of changes in interest rates on net income and shareholders' equity? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

The proposed sensitivity would also require insurers to determine the impact on DAC amortization and other adjustments as well as tax impacts on each scenario, which requires extensive amount of cost/resource and run-time. Additionally, it is unclear how an entity would be required to evaluate indirect impacts associated with each scenario. Indirect impacts could include loss recognition testing, changes in DAC amortization assumptions on interest sensitive products, deferred tax asset recoverability, and goodwill testing to name a few. Based on the complexity and cost of preparing the sensitivity along with the lack of usefulness of such a sensitivity to fully understand an insurer's interest rate risk, we recommend removing the interest rate sensitivity requirement.

While we recognize the relevance of the impact on net income and equity from interest rate sensitivities, the impact on net income and equity do not provide a comprehensive view of the interest rate risk of insurers and does not align with how management monitors or evaluates this risk across the organization, which may vary by product/business line. As an alternative to removing the sensitivity entirely, we discussed limiting the requirement to only show the impacts on assets or liabilities recorded at fair value as well as disclose variable rate instruments. Given this information may already be provided in Regulation S-K Item 305 under the SEC's MD&A disclosure requirements, we recommend removing the proposed Interest Rate sensitivity.

Question 15: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to understand your entity's exposure to interest rate risk? If not, what other information would better achieve this objective?

No. As stated in our comments within the letter, we do not believe the proposed disclosures provide decision-useful information regarding our entity's exposure to interest rate risk and do not align with how insurers manage these risks. Existing MD&A disclosures already incorporate disclosures for market risk including interest rate risk in which sensitivities are already included. While existing MD&A disclosure provide some useful information related to interest rate risk, there are elements that could be improved for companies where asset-liability management is performed or where repricing risk is significant. Accordingly, we recommend incorporating a disclosure principle into the existing market risk disclosure for interest rate risk that would require disclosure of information to better enable users to understand how an entity evaluates asset-liability management or repricing where it is relevant and significant to an entity's business. Our recommendations could include such summary level metrics that would provide a measure of duration for assets and liabilities for certain life insurance product lines where asset-liability management is relevant.

Questions for Users – Interest Rate Risk Q16 to Q19 Omitted

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Questions for All Respondents

Question 20: The amendments in this proposed Update would apply to all entities. Are there any entities, such as nonpublic entities, that should not be within the scope of this proposed Update? If yes, please identify the entities and explain why.

Yes. As stated in our comments within the letter, we do not believe the proposed disclosures should be applicable to nonpublic entities due to: 1) the significantly different needs of users for nonpublic entities, 2) the lack of decision-useful information from the proposed disclosures, and 3) the significantly higher incremental costs that would be borne by nonpublic entities when complying with the proposed disclosures. Not only do we recommend nonpublic entities be excluded from the scope, but we also recommend that public entities that are not required to include the SEC's MD&A disclosure requirements be excluded from the scope of the proposed disclosures. Certain subsidiaries of public companies may also file/furnish financial statements to the SEC where the reasons related to nonpublic entities being excluded would also apply. In summary, GNAIE's recommendation is to only apply any additional disclosures or changes to existing disclosures to public entities that are required to include MD&A disclosures and urge the Board to work with the SEC to evaluate the existing MD&A disclosure requirements related to liquidity and interest rate risk for targeted improvements consistent with our recommendations herein.

Question 21: Although the proposed amendments do not have an effective date, the Board intends to address the needs of users of financial statements for more information about liquidity risk and interest rate risk. Therefore, the Board will strive to make these proposed amendments effective on a timely basis. How much time do you think stakeholders would require to prepare for and implement the amendments in this proposed Update? Should nonpublic entities be provided with a delayed effective date? If so, how long of a delay should be permitted and why? Are there specific amendments that would require more time to implement than others? If so, please identify which ones and explain why.

See comments in our letter under "Effective Date" and "Implementation Uncertainties" for our recommendations related to this question.

Additionally, see our response to Question 20 related to application to nonpublic entities where we recommend excluding nonpublic entities from the proposed disclosures. At a minimum, we believe consideration of the proposed disclosures for non-public entities should be delayed and reconsidered once the FASB's Private Company Decision-Making Framework project is completed.

Question 22: Do you believe that any of the amendments in this proposed Update provide information that overlaps with the SEC's current disclosure requirements for public companies without providing incremental information? If yes, please identify which proposed amendments you believe overlap and discuss whether you believe that the costs in implementing the potentially overlapping amendments outweigh their benefits? Please explain why.

Yes. As stated above, we believe there is duplication of information in both the interest rate sensitivity disclosure and the cash flow obligations disclosure. See comments in our letter for more details related to the duplication of information.
