

**NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY**

September 7, 2004

Mr. Robert Herz, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

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

Re: EITF 03-1 – The Meaning of Other than Temporary Impairment

Dear Sirs:

The Northwestern Mutual Life Insurance Company, its subsidiaries and affiliates offer life, disability, and long-term care insurance, investment products, and advisory services that address client needs for financial protection, capital accumulation and estate preservation and distribution. Founded in 1857, the Company has consistently enjoyed the highest ratings for financial strength from the four major rating agencies. We are among the largest life insurance companies in the United States, as measured by total life premiums, life insurance coverage in force, or sales.

The Company holds a investment portfolio of more than \$103 billion in diversified bonds, commercial mortgage loans, and equity securities. Approximately 90% of our bond portfolio is investment grade quality, with much of the Company's holdings invested in US treasury obligations, AAA mortgage or asset-backed securities, and A or better rated corporate bonds. The bond portfolio is actively managed, is primarily designated as available for sale, and is designed to support the long duration liabilities represented by our life insurance reserves. Fluctuations in the value of the underlying fixed income securities in our portfolio are common and expected due to either changes in market interest rates or credit spreads associated with a sector or issuer.

For the reasons cited in the comment letters that have been submitted by the life and banking associations as representatives of this country's major institutional investors, we urge you to defer the effective date of the new guidance and to solicit additional public comment on the serious detrimental consequences that will arise from applying its requirements to declines in market value of securities that are not attributable to readily identifiable, credit-related impairment factors.

We believe that application of EITF 03-1 in its present form would have significant negative effects on the receptivity of institutional investors for fixed-rate, long-duration bonds and would reduce the liquidity of current holdings. Under the existing rules, changes in value attributable to interest rate changes affect only the GAAP balance sheet of institutional investors who hold the securities as available for sale, with many analysts excluding these effects in calculating a Company's equity or ROE. We believe that the requirement under the proposed guidance that these changes reduce net income will make it extremely difficult for investors, regulators, and other interested persons to gain a clear picture of the true financial health of an enterprise's operations.

We also wish to point out the serious practical and administrative difficulties that CFOs and other financial officers of institutional investors will have in applying the proposed guidance. Rather than focusing on the relevant, credit-related factors underlying a diminution in value that might be other than temporary, under the proposed guidance, an extraordinary amount of cost and effort will be spent each quarter assessing, and then documenting, the reasonableness of a forecasted recovery date for changes in interest rates and the intention of the portfolio managers with regard to U.S. government, MBS and ABS, and highly-rated investment grade corporate securities that are most unlikely to suffer a material deterioration in credit quality or default.

Our company holds thousands of such issues. The temporary rise in interest rates earlier this year resulted in more than 900 individual securities with an unrealized loss – each of these would have had to be individually considered for impairments under the proposed guidance. As an aside, the recent decline in market interest rates has eliminated many of these losses, an occurrence which would not have been reflected in a recovery of net income. It also strikes us as anomalous to assert that certain securities of a high-quality issuer may need to be treated as impaired due to a rise in interest rates after the date of initial purchase while other securities of the same issuer would not be so treated if the purchase occurred at a later date when interest rates stabilized at higher levels.

We appreciate your consideration of this very important matter.

Yours very truly,

Gary A. Poliner