November 29, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1870-100

Genworth Financial appreciates the opportunity to comment on the Financial Accounting Standard Board’s (FASB or the Board) Discussion Paper, Preliminary Views on Insurance Contracts (the discussion paper). Genworth Financial, Inc. is a leading financial security company dedicated to providing insurance, wealth management, investment and financial solutions to more than 15 million customers, with a presence in more than 25 countries.

As a financial security company, the proposed changes to accounting for insurance contracts will have a profound impact on our insurance businesses and related liabilities.

We support the Board’s objective to improve U.S. GAAP for insurance contracts by developing high-quality guidance through improving, simplifying and achieving convergence of the financial reporting requirements for insurance contracts, and to provide investors with decision-useful information. As explained below, these goals would not be achieved through adoption of the International Accounting Standards Board (IASB) Exposure Draft, Insurance Contracts nor the discussion paper in their current forms. We do appreciate the Board’s desire to achieve convergence with International Financial Reporting Standards and would support the FASB and IASB proposals provided the issues identified in this letter are addressed.

With respect to convergence, we are concerned with instances where the FASB and IASB have reached different conclusions, and the possibility of adopting changes for U.S. GAAP that would later need to be modified upon conversion to International Financial Reporting Standards (IFRS). We urge the FASB and IASB to reconcile their accounting models prior to the issuance of a final standard. Adopting the new standard for insurance contracts will be a very costly and time consuming exercise. Additionally, we may be faced with adoption of new standard(s) for financial instruments as well as preparing for conversion to IFRS over the next several years. Having to adopt multiple models for insurance contracts during this period puts additional and
unnecessary strain on our resources, and will likely result in enormous confusion to users of our financial statements.

We greatly appreciate the Board issuing a discussion paper that allows for adequate due process, including modeling and testing during the development of new guidance. Issuance of a high-quality standard that can stand the test of time must remain the primary objective. We have begun to model the concepts in the discussion paper and exposure draft on some of our insurance contracts. This modeling exercise raises numerous practical implementation difficulties and in all, or almost all, cases produces profit patterns that are vastly different, more volatile, and in many cases, economically illogical. While we realize accounting impacts the pattern of earnings recognition over the life of an insurance contract, not the ultimate result, the results identified through our modeling, if unchanged in the final standard, will inevitably have an impact on the availability and pricing of our insurance contracts. Practical considerations and detailed modeling of a final model in a variety of circumstances should be part of the FASB’s, and IASB’s, process prior to issuing a final standard.

**Overall Comments on FASB Discussion Paper**

Our consolidated financial statements, currently produced under U.S. GAAP, are used as the primary basis for evaluating our performance. These financial statements represent our main view of the economics of our businesses, consisting primarily of insurance contracts. Many of our insurance contracts are long-duration, with some contracts existing 40 or more years. Any changes to the accounting for insurance contracts that is adopted must continue to allow us to provide accurate, meaningful information to investors, analysts and other users of our financial statements.

We support many of the suggested areas for improvement outlined by the Board in the discussion paper, including those relating to eliminating the insurance entity orientation, the definition of an insurance contract, and the updating of long-duration contract assumptions each period, as well as continuing with the changes to insurer’s accounting for acquisition costs that were addressed through the FASB Accounting Standards Update 2010-26 (ASU 2010-26). We believe these changes would be an improvement to U.S. GAAP by increasing comparability and providing a more accurate depiction of the financial performance of insurance contracts.

While we are supportive of these topics, we do have significant concerns with other parts of the proposal, including the discount rate, the IASB’s transition provisions, mandatory use of the modified approach, risk adjustments, acquisition costs, unbundling, presentation and disclosure. While we discuss these and other concerns, along with potential solutions, in greater detail within our answers to the specific questions in the discussion paper the key points on our significant concerns related to the discount rate and the IASB’s transition provisions are as follows:

**Discount Rate** – The current discount rate proposal does not reflect how insurance contracts are priced, ignores the insurance business model—providing no benefit for asset-liability management, and results in severe, artificial volatility being recognized in the financial statements. For example, the potential recognition of a Day 1 accounting losses when economic
value is actually generated illustrates how the proposed discount rate ignores the economics of long-duration insurance contracts

**Transition** – The IASB’s proposed transition guidance that eliminates future profit on in-force insurance contracts will result in an income statement that does not reflect the performance of our insurance businesses. Such a transition approach would distort earnings and capital ratios and put insurers at a competitive disadvantage to other industries.

If modifications are not made to the discount rate and transition, our financial statements will not reflect economic realities, how we manage our business, or how our businesses are evaluated by users of our financial statements. As a result we would be forced to use other measures as the primary method of explaining our businesses results and evaluating our performance, potentially reducing the preparation of U.S. GAAP or IFRS financial statements to a compliance exercise.

In addition, the insurance industry’s ability to attract and retain capital is heavily dependent upon investor appetite and confidence both of which are fueled by access to decision useful information in financial statements. Certain aspects of the proposed standard have the potential to disrupt the industry’s ability to obtain capital as well as impact certain markets supported heavily by insurance businesses. Companies that issue insurance contracts serve as long-term stable investors in corporate debt, support the consumer financial and housing markets, and protect individuals’ financial security. We are especially concerned with the impact that the proposed insurance contract accounting could have on long-duration insurance products, such as long-term care and “paycheck for life” guarantees, which decrease financial burdens on the public sector.

We have attached to this letter our answers to the specific questions in the discussion paper, which are reprinted in bold for ease of reference, to provide additional detailed comments and potential solutions where appropriate.

We appreciate the opportunity to comment on the discussion paper. If there are any questions regarding this letter or you wish to discuss our comments and recommendations, please contact me at (804) 662-2685 or Matt Farney, our accounting policy leader, at (804) 662-2447.

Sincerely,

Amy R. Corbin

Amy R. Corbin
Vice President, Controller and Chief Accounting Officer
Responses To Questions: FASB Discussion Paper – Insurance Contracts

Definition and Scope

1. Are the proposed definitions of insurance contract and insurance risk (including the related guidance) understandable and operational?

The proposed definitions of insurance contract and insurance risk are an improvement to U.S. GAAP, including usage of the broader term ‘compensation’ rather than ‘indemnification’ to define the insurance contract benefit and the expanded definition of significant insurance risks.

2. If the scope of the proposed guidance on insurance contracts is based on the definition of an insurance contract rather than on the type of entity issuing the contract, would financial reporting be improved?

U.S. GAAP will be improved by the expanded scope of the insurance contract definition provided it increases consistency between entities in different industries that issue similar products. To the extent that similar contracts are accounted for under different models, certain industries could have a competitive advantage and we would encourage the Board to change the definition or scope to ensure consistent treatment for all similar products.

3. Do you agree with the proposed scope exclusions? Why or why not?

Please see our response to question 2.

4. Should benefits that an employer provides to its employees that otherwise meet the definition of an insurance contract be within the scope of the proposed guidance? Why or why not?

No, employee benefits that contain insurance features should be subject to the accounting principles used for all employee benefit plans rather than insurance contracts.

5. The Board’s preliminary view is that participating investment contracts should not be accounted for within the proposed model for insurance contracts but, rather, should be included in the scope of the proposed model for accounting for financial instruments. Do you agree? Why or why not?

Yes, only contracts that meet the definition of an insurance contract should be included in the proposed model. Financial instruments with discretionary participation features should be classified as financial instruments, consistent with the treatment with other products issued by insurance entities that do not contain insurance risk.
6. Do you support the approach for determining when noninsurance components of contracts should be unbundled? Why or why not?

We believe unbundling of insurance contract components is appropriate only in circumstances where separation results in a better economic representation for the insurance contract, and where the component is separately managed and priced by the insurer. The requirements to unbundle are inconsistent with the definition of an insurance contract, as they attempt to theoretically extract components of a contract that meets the definition of insurance in its entirety. Insurance contracts have numerous components that could hypothetically be unbundled under the proposed guidance; insurers should be required to unbundle only when they determine these criteria are met. This would increase transparency and comparability, the two benefits of unbundling stated in the discussion paper. Further, a bundled approach includes all components in the valuation, without the introduction of added complexity, inconsistency and confusion. The final guidance should be principle based, allowing insurers discretion to apply the principles outlined above to insurance contracts.

The proposed criteria provide examples of when unbundling is appropriate that are inconsistent with the principles outlined above. Additionally, we do not agree with the assertion that account values are not clearly and closely related to the underlying insurance contract, as account values can be used to fund the insurance benefits provided to policyholders or to pay premiums due under a contract.

**Recognition and Measurement**

7. Do you agree with the use of the probability-weighted estimate of net cash flows to measure insurance contracts? Does that approach faithfully represent the economics of insurance contracts? Is it an improvement over existing U.S. GAAP?

We agree with the general principle of fulfillment cash flows as described above.

While the use of probability-weighted cash flows to get an expected value is a theoretically appropriate method, we caution that probability distributions for cash flows may not be available in all cases either because of the nature of the risk or because of insufficient credible experience. Therefore a prescriptive requirement for probability-weighted cash flows may not be attainable. The guidance should describe the principle to be applied – an unbiased, mean considering all available information. The basis for conclusions could describe various acceptable approaches, such as stochastic scenarios and deterministic determinations as well as other methods, and when they are appropriate.

A probability-weighted approach is not required for other cash flow measurement techniques, including when determining fair value and financial instrument impairment. Similarly, a probability-weighted approach should not be prescribed for insurance contracts.

The mandatory requirement to use probability-weighted cash flows does not represent an improvement to U.S. GAAP.
We agree with the contract boundary principle and believe further clarification is needed to ensure the principle is applied consistently. Our specific concern relates to a contract boundary being determined at the point in which the insurer can reassess risk by setting a price that fully reflects the risk. The guidance should include clarification on how to apply this principle to contracts with guaranteed premium rates that can be increased with approval from regulators. In some cases, requested rate increases may be denied in full or approved at a lower level than applied for, or alternatively may be offered as a decrease in benefits under an existing contract, while in other cases they would allow for rate resets that fully reflect the risks inherent in the insurance contracts. The guidance should provide clarification on how to apply the boundary principle to these situations.

We have one additional comment related to the recognition criteria. The discussion paper requires liability recognition at the earlier of the contract effective date and the date on which the insurer is first exposed to risk under the contract. The requirement to establish a liability prior to the effective date of the contract will be difficult and costly to implement, without providing a meaningful benefit to financial statement users. Insurers write group contracts covering multiple policyholders; often these contracts are signed several months prior to the effective date of coverage, making estimates of future cash difficult and impractical. Additionally, reinsurance contracts can be purchased to provide coverage of new business, and we struggle to understand how the measurement model would be applied to these policies before they are written. We support a recognition date for insurance and reinsurance contracts that is based on the coverage effective date.

8. Do you think that an entity’s estimate of the net cash flows should include a risk adjustment margin?

No, we do not believe a risk adjustment margin should be included in the measurement model because we have serious concerns about the usefulness and comparability of an explicit risk adjustment. A risk adjustment based on the current definition will not provide useful information to financial statement users as it is subjective and provides an overly simplistic view of the many complex risks inherent in insurance contracts. Additionally, the risk adjustment is potentially misleading as it implies a level of precision in measuring a complex bundle of risks that does not exist.

9. Is the objective of the risk adjustment margin understandable? If so, do you think that the techniques for estimating the risk adjustment margin (see paragraph 52(b)), faithfully represent the maximum amount that the insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected?

We understand the objective of the risk adjustment margin but do not believe any technique, including the ones in paragraph 52(b) faithfully represent the definition of the risk adjustment margin as described above. The maximum amount an insurer would pay to be relieved of risk cannot be objectively measured or verified, nor is it consistent with the concept of fulfillment cash flows. Additionally, the risk adjustment cannot be validated by comparison to an external measure because there is no active market for insurance contracts.
10. Do you think that the risk adjustment margin would be comparable for entities that are exposed to similar risks?

No, the subjective nature of the risk adjustment combined with the significant reliance on insurer specific inputs will result in a lack of comparability. Even in situations where two insurers use the same approach for estimating the risk adjustment, there will likely be differences in the means by which that approach is applied. As a result, there will be little, if any, comparability between entities, even when two entities are exposed to similar risks.

We believe the risk adjustment may ultimately be disregarded by users, including regulators in establishing capital requirements, who will prescribe or calculate their own measure of uncertainty.

11. Do you agree with the description of cash flows that should be included in the measurement of an insurance contract? Is the proposed guidance operational?

We do not agree with the description of cash flows to be included in the measurement model, because it excludes certain direct acquisition costs. Please see our response to question 14.

12. Do you agree that the carrying amount of all insurance contracts should be discounted if the effect is material? Do you agree with the proposed guidance on the discount rate that should be used to measure the carrying amount of insurance contracts? If not, which discount rate should be used?

We agree the carrying amount of long-duration contracts should be discounted. However, we have serious concerns with the Board’s conclusion that other adjustments such as credit spreads should not be considered when measuring liabilities for insurance contracts. The requirement in the exposure draft to start with the risk free rate seems to be carried over from the previous exit value measurement approach and appears inconsistent with the current fulfillment value approach. Further, reflecting changes in the risk free rate will introduce significant volatility that would be unrelated to the long-term stability of an insurer.

We strongly believe that using a risk-free rate plus an adjustment for liquidity to discount the expected cash flows results is a misleading representation of the insurance contract. Insurers price contracts with certain expectations about performance including the expectation of earning a targeted return on the assets supporting the insurance contract. For example, with fixed annuities and universal-life insurance contracts, insurers credit interest to the policyholder at a rate that is based on the return of the supporting general account assets, which includes a credit spread. The investment risk associated with these contracts can be significant, and in some cases greater than the insurance risk. Discounting the liability at a rate that is inconsistent with actual interest credited to the liability results in a clear accounting mismatch where no economic mismatch exists. This accounting mismatch occurs because insurers will record a loss at inception on these long-duration contracts, and also because the liability will change in response to interest rate changes that are not correlated with the economics of the contract.
We agree that liquidity should be one of the components of the discount rate in the measurement model, but strongly disagree with the means by which the liquidity adjustment is determined. The liquidity adjustment, as described in the IASB exposure draft, is an artificial construct. As a result, there are insufficient means to determine how such an adjustment would be calculated and making it a near certainty that the adjustment will not be calculated consistently between entities.

We support a discount rate methodology that generates an accounting result consistent with the economics of the underlying portfolio of insurance contracts. An effective discount rate approach should be flexible, allow for a portfolio of insurance contracts to be discounted at a rate consistent with the business model and, where possible, reduce non-economic, accounting volatility. Following these principles, we offer three alternatives to the Board’s proposal, with the suggestion that each approach be permitted under certain conditions.

1. Pricing assumption – Insurers would be permitted to use this approach when an insurance contract has an explicit crediting rate that is based on the return of a specific asset portfolio. The criteria for unbundling could be used for determining eligibility for this approach.

2. Risk free rate with adjustment for liquidity and credit risk – Insurers would use a risk-free rate coupled with either an option-adjusted spread or market yields on high-quality corporate bonds. This approach would apply to insurance contracts without an explicit crediting rate.

3. Locked-in discount rate – This approach would be permitted when the insurer has a portfolio of insurance contracts supported by assets predominately measured at amortized cost. The locked-in discount rate would be determined using the approaches in steps 1 and 2 above, depending on the characteristics of the insurance contracts.

We encourage the Board to consider these options, among others, to modify the discount rate criteria so the final standard results in a measurement model that accurately depicts the economic characteristics of insurance contracts.

13. Do you think that acquisition costs should be included as one of the cash flows relating to the contract? If not, how would you account for acquisition costs?

We do agree that acquisition costs should be included in the initial measurement of the insurance contract. The inclusion of acquisition costs in the measurement model is consistent with how insurance contracts are priced, managed and viewed, as insurers expect to recover costs that are both specific to an individual contract level and directly related to the acquisition of new business.
14. Do you agree that acquisition costs included in the cash flows used in the measurement of the insurance contract should be limited to those that are incremental at the individual contract level? If not, which acquisition costs, if any, would you include in the measurement of the insurance contract?

No, the measurement model should include all acquisition costs that are eligible for deferral under ASU 2010-26. The current measurement model contains an inconsistency because it does not permit direct acquisition costs that are not incremental at the policy level to be included in the measurement model, but requires allocated direct costs associated with other cash outflows to be included.

ASU 2010-26 recognizes that certain costs are directly associated with the acquisition of insurance contracts, but may not be incremental at an individual contract level. This guidance should serve as the basis related to acquisition costs for a converged insurance contracts standard.

We disagree with limiting acquisition costs to those incremental at the contract level. The inclusion of incremental and certain direct allocated costs in the measurement model is consistent with how insurance contracts are priced, managed and evaluated, as insurers recover costs that are both specific to an individual contract level and directly related to the acquisition of new business. Insurers have robust, well-tested processes in place to allocate acquisition costs to insurance contracts; the subjectivity of allocations is not a reason for excluding these costs from the initial measurement, especially considering numerous other allocated costs that are included in the measurement model. We also do not believe that consistency with other standards should be a basis for excluding allocated costs, as insurance contracts contain a unique bundle of rights, obligations and cash flows, and are not comparable to products in other industries with acquisition costs as is evidenced by the development of a separate accounting model for insurance contracts.

15. Do you agree with the use of either the composite margin approach or two-margin approach to measure the net insurance contract? Does either approach faithfully represent the economics of insurance contracts? Is either approach an improvement over the measurement used in current U.S. GAAP?

We favor a single composite margin approach. A composite margin which can be validated to an external measure will provide information on the performance of insurance contracts that is useful, easier to understand and comparable, and at the appropriate level of detail for financial statement users.

Please see our responses to questions 8-10.
16. Do you think that the composite margin should be recognized in earnings in subsequent periods using the ratio described in paragraph 83? If not, how would you recognize the composite margin in earnings?

The composite margin should serve as a buffer based on the current, revised estimates of future cash flows over the coverage period or period of expected claim occurrence. This would recognize the composite margin in a manner that reflects both the passage of time and the uncertainty in the amounts and timing of cash flows, consistent with the nature of insurance, a principle articulated by both the FASB and IASB for releasing margins.

The ratio described in paragraph 83 is an acceptable method for recognizing the composite margin after adjusting for the effects of changes in cash flows, as described above. However, one method may not be appropriate for all contract types; as well, new approaches could be developed in the future that are more appropriate for certain contracts. Therefore, we believe any final standard that includes a composite margin should permit discretion in the method used, provided there is consistency with the principles outlined above.

17. Do you agree that interest should not be accreted on the composite margin? Why or why not?

Interest should not be accreted on the composite margin because the result would be an artificial inflation of revenues and expenses.

18. Do you think that all insurance contracts should be recognized and measured using one approach or that some insurance contracts should be recognized and measured using an alternative approach (for example, the modified approach)? Why or why not?

The Board should permit, but not require a modified measurement approach for the pre-claims liability of short-duration contracts. We do not see any benefit in requiring a modified premium approach if the intent is for this model to produce a similar result as the fulfillment cash flow approach. As an example, an insurer that issues two otherwise identical contracts, one with a twelve month duration and the other with a fifteen month duration, should not be required to use two different measurement models. While we do support permitting but not requiring the modified approach, requiring it within our business would significantly increase costs and create user confusion from the lack of consistency and different presentation for similar contracts.

19. If an alternate approach is required for some insurance contracts, what recognition, measurement, and presentation provisions should be applied (including those items noted in paragraph 106)?

Please see our response to questions 18 and 28.
20. Do both the building-block approach and the modified approach (with the latter approach applied only to certain short-duration contracts) produce relevant and decision-useful information? Why or why not?

The building-block approach in its current form does not produce relevant and decision-useful information because of our concerns related to the discount rate and the IASB's transition provisions, as well as concerns with the requirements to use the modified approach, risk adjustments, acquisition costs, unbundling, presentation and disclosure. Accordingly, adopting the discussion paper accounting would lead to financial statements that do not accurately depict the economics of insurance contracts because they are based on an unreliable measurement model and lack key performance metrics employed by financial statement users.

21. How should the scope of insurance products for each approach be defined (for example, duration of coverage period, duration of claims payment period, or type of insurance)?

Please see our response to question 18.

22. Are there specific types of insurance contracts for which the approaches would not provide decision-useful information?

Please see our response to questions 18 and 20.

23. What are the implications of the recent U.S. healthcare reform to the application of the proposed contract boundary principle, including whether health insurance contracts written under the new reforms would meet the conditions in the proposed guidance to be accounted for under the modified approach?

At this time we do not have an opinion on this question.

24. What other changes should be considered to both improve and simplify U.S. GAAP for short- and long-duration insurance contracts?

If a targeted approach is taken to improve the U.S. GAAP measurement model for insurance contracts, in addition to (and consistent with) reflecting current assumptions, we recommend removal of the provision for adverse deviation on long-duration insurance contracts.

25. What are the incremental costs of adopting the alternatives described in this Discussion Paper? Please separately describe one-time costs and ongoing costs.

We would incur significant one-time and ongoing costs associated with adopting the discussion paper.

The most significant costs will be associated with information systems. We have a large number of information systems that are used for receipts, disbursements, valuation, accounting and financial reporting that will need to be re-designed to accommodate the new
accounting and financial reporting requirements. Additionally, there will be significant internal and external costs associated with training, education, consulting, auditing and other functions that will be related to implementing the new standard. There will also be costs associated with updating our risk management and internal control framework, modifying our investments and hedging strategies, and potentially contract re-design and pricing. Finally, our management and external reporting framework will need to be re-designed to accommodate the outputs generated by the new reporting framework.

In addition, the criteria for initial recognition of insurance contracts when bound, which we expect would have an immaterial impact in any measurement model, will result in significant costs related to the re-design of our administrative systems to reflect an earlier liability recognition date.

We urge the FASB and IASB to reconcile their accounting models prior to the issuance of a final standard. Many of our international businesses will be required to adopt IFRS for local reporting as well as any FASB changes for our consolidated reporting, as well as proposed solvency regulatory changes in many cases, potentially greatly increasing the time and costs to adopt these changes absent full convergence.

Reinsurance

26. The scope of the proposed guidance includes reinsurance contracts that an insurer issues or acquires. However, insurance contracts held directly by other policyholders would be excluded from the scope of the proposed guidance. Do you agree with this exclusion? Why or why not?

Yes, we agree that owned insurance policies should be excluded from the scope of the proposed guidance.

27. Should there be symmetry between the recognition and measurement of reinsurance contracts and the underlying contract ceded?

Yes, to the extent the reinsurance contract and direct insurance contract share similar risks and other economic characteristics, there should be symmetry. We do not support including creditworthiness of a reinsurer in the initial measurement of a reinsurance asset on an expected value basis because it reduces this symmetry.

Expected loss models provide useful information when an entity has a large number of similar assets and expects a portion of them to become uncollectible. Insurers do not expect to incur a loss from a credit event when they enter into a reinsurance agreement, otherwise they would not do so. Additionally, reinsurance agreements are often collateralized with trust agreements and letters of credit, or other support arrangements, which greatly reduce the chances of non-collection.

An expected loss model is also unsuitable for measuring expected losses from coverage disputes. There is no reasonable way to quantify the timing, probability, and amount of a
coverage dispute and therefore applying an expected loss model would likely yield a meaningless result.

Recording a loss at inception of a reinsurance contract would be inconsistent with the economic value of most reinsurance agreements.

Presentation and Disclosure

28. The margin presentation approach highlights the changes in the insurance liability, rather than the current approach in U.S. GAAP, which presents, among other items, premium revenues, benefits paid, operating costs, and changes in loss estimates. Would this change improve your understanding of the performance of an entity that provides insurance (for some types of insurance or for all)? Please explain.

No, while the summarized margin approach may be consistent with the principles of revenue recognition, we do not believe it results in a performance statement that would be relevant in the decision making process for financial statement users. The summarized margin approach will contribute to users relying on disclosures and non-financial statement measures to assess performance.

Premiums and benefits are key performance metrics used by investors, analysts and other users for evaluating the performance of insurance entities. These measures have been widely and historically accepted for determining top-line revenue, loss ratios and other financial measures relevant to insurance entities. Premiums and benefits represent financial statement items that are comparable among companies, well understood, verifiable and not based on assumptions selected. On the other hand, the release of a margin is based on allocations, estimates, and incorporates significant management judgment, all of which can vary greatly among companies. Similar to asset characteristic and valuation disclosures, aggregate information about insurance contract sources of earnings, including changes in assumptions, may be disclosed.

29. Should insurance contracts measured under the building-block approach be presented using a margin presentation approach or a premium presentation approach that would require a true-up amount as described in paragraph 119 (for example, the written allocation presentation approach or the allocated premium presentation approach)?

We support the written premium presentation outlined in paragraph 118(a) because this approach enables users to better understand our performance. We do not support a margin presentation for the reasons outlined in our response to question 28.

30. Should short- and long-duration (or nonlife and life) contracts be presented in a similar manner even if such contracts are measured under different approaches?

Yes, companies that write both life and nonlife contracts should present consolidated results in one, consistent format to facilitate investor comparison with other insurance and non-insurance companies.
31. Do you agree with the proposed disclosures in the IASB’s Exposure Draft? Why or why not? If not, what would you recommend and why?

No, the quantity and depth of required disclosures in paragraphs 79-97 of the IASB’s exposure draft are excessive, and certain disclosures that would be required do not provide meaningful information, but rather serve to overwhelm the reader with information that is not useful for decision making. We recommend the Board perform a cost benefit analysis of each disclosure proposed in the exposure draft.

We agree the components within the contract balance reconciliations in paragraphs 86-87 of the IASB’s exposure draft provide meaningful information at a total company level; however the disaggregation of these components at a portfolio level provides little additional benefit at an unreasonable cost to preparers.

We also agree with the general requirements to disclose information about sensitivities to changes in variables and uncertainty around the measurement of these variables, but again, question the added value of such a granular level of detail. We are particularly concerned about the quantitative requirements of the measurement uncertainty analysis in paragraph 90 and the sensitivity analysis in paragraph 92 of the IASB’s exposure draft. It is not possible to reasonably estimate the total financial statement impact of using different inputs in the liability measurement model without creating an exhaustive process to run models under different scenarios and update all the combinations of these inputs to arrive at a meaningful result. Additionally, showing the effect of changes in a single input can provide misleading and confusing information to users, as the measurement model is largely estimate driven and changes in one input often correlate with changes in other variables which may not be fully reflected in a snapshot-type disclosure.

In addition to an overabundance of information that will make it difficult for users to obtain a clear understanding of an insurer’s performance or financial condition, we currently have requirements to complete and file our annual audited consolidated financial statements within 60 days and our quarterly consolidated financial statements within 30 days of the end of the period. Insurance entities will already be greatly strained by the process of measuring insurance liabilities, and adding these burdensome disclosures to the financial reporting process will inevitably result in delays in the issuance of financial statements or the incurrence of significant additional costs.

We are also concerned that the exposure draft would inappropriately shift information currently in our unaudited management discussion and analysis into the financial statement footnotes, further increasing costs for little, if any, benefit.
Additional Question for Respondents

32. After considering your views on the specific issues contained in this Discussion Paper and the IASB's Exposure Draft, what do you think would represent the most appropriate improvement to U.S. GAAP?
   a. Pursue an approach based on the IASB's Exposure Draft?
   b. Pursue an approach based on the IASB's Exposure Draft with some changes? Please explain those changes.
   c. Pursue an approach based on the Board’s preliminary views in this Discussion Paper?
   d. Pursue an approach based on the Board’s preliminary views in this Discussion Paper with some changes? Please explain those changes.
   e. Make targeted changes to address specific concerns about current U.S. GAAP (for example, items included in paragraph 7)? Please describe those changes.

We support “e.”—based on the current IASB exposure draft and FASB discussion paper.

We would support convergence to an international accounting standard for insurance contracts if that model addresses the concerns we have raised in this letter. Absent a high quality international accounting standard, we support making limited, targeted improvements to existing U.S. GAAP as the best approach for improving accounting for insurance contracts in the United States.

Existing U.S. GAAP provides a comprehensive framework for insurance contract accounting. The current standards provide a uniform and consistent representation of the financial performance of insurance contracts, is well tested, and understood by financial statement users.

The Board has outlined suggested areas for improvement in paragraph 7 of the discussion paper. We support the changes relating to insurance entity orientation, the definition of an insurance contract, and regular updating of assumptions, as well as maintaining the changes to accounting for acquisition costs that have been already addressed through ASU 2010-26. Making these changes, along with eliminating provisions for adverse deviation, will increase comparability among insurance entities as well as other industries that issue insurance contracts, and will result in a more accurate depiction of the financial performance of insurance contracts.

The remainder of the changes outlined in the IASB exposure draft and FASB discussion paper either create needless complexity in the accounting model or result in accounting mismatches where no economic mismatch exists. As a result, neither the IASB exposure draft nor the FASB discussion paper would result in an improvement to U.S. GAAP that exceeds the costs involved.