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Technical Director
Financial Accounting Standards Board
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Thank you for the opportunity to comment on the Discussion Paper, *Preliminary Views on Insurance Contracts* (DP). Western & Southern Financial Group is a diversified provider of financial services including life insurance, retirement planning and investment products, with assets owned, managed and under our care in excess of $47 billion as of June 30, 2010. We support the Board’s involvement in the insurance contracts project and the broader objective of international convergence. That being said, in its current state, we do not believe that the proposed guidance presented in the DP represents an improvement to current U.S. GAAP for the accounting for insurance contracts. We have the following significant concerns regarding the proposed guidance:

**Current Fulfillment Value**
We do not believe that the use of current fulfillment value (CFV) represents the most appropriate basis for insurance contracts. It is inconsistent with how insurance contracts are generally managed and it will introduce a level of volatility that will obfuscate insurer results preventing meaningful analysis of periodic performance. We support the existence of a cost option for insurers that intend to hold insurance contract liabilities through their anticipated maturity. We will further explain our justification and approach for a cost option below, but in general, we believe this approach would better align with how most insurers manage their liabilities and would largely align with the accounting for financial instruments as proposed by the International Accounting Standards Board (IASB).

**Presentation**
We do not support the proposed guidance regarding presentation. Insurance entities measure and analyze revenue growth. Revenue growth for life companies is generally driven by increased assets under management leading to higher investment earnings (which will still be included in the proposed standard) plus premiums and insurance charges paid by policyholders for insurance assumed. Top line revenue is generally used to determine the size of a company. The DP as currently written excludes a large portion of what insurers’ consider revenue and will make insurers appear smaller than they should when compared to companies in other industries.
**Risk Margin**

The IASB supports a split margin. We do not support this approach and have concern about comparability issues that will likely emerge from company to company and between different jurisdictions. The presence of a risk margin will provide investors a false sense of accuracy given the lack of market data and level of assumptions required to determine the amount. As such, given that the composite margin is solved for with all market-based inputs (amount required to produce no gain at issue), we believe that this is the amount that should be used for general purpose reporting and for purposes of determining the emergence of earnings through margin release.

**Discount Rate**

Our concern with discount rate is primarily associated with the use of the CFV measurement basis. Under the proposed approach, there is a certain amount of ambiguity regarding how the guidance for discount rate would be applied in practice. We have concern that the discount rate will likely be too low and could result in the need to record artificial losses at issue. In addition it is unlikely that the periodic changes in discount rate would reflect the periodic changes in values of the supporting assets backing insurance contracts leading to significant non-economic volatility. We consider this volatility to be non-economic since it neither reflects management’s intent to hold these liabilities until maturity nor a reasonable value that a third party would pay to acquire the business. In short, it produces a value that fails to reflect management expectations or market expectation. It is a balance with very little actual meaning.

While we have these significant concerns with the proposed guidance, we still support the efforts of the Board to provide revised and improved guidance to the accounting for insurance contracts. We believe that working within the framework provided by the DP, these issues could be resolved and improved guidance could be provided. Below we offer further comments on the reasons we believe an amortized cost model should be provided for the accounting for insurance contracts. For further responses to the DP including responses to the specific questions posed by the Board, we participated in and support the views expressed in the comment letters provided by the American Council of Life Insurers and refer you to their comment letters for additional clarification.

**Justification for Amortized Cost Approach**

Similar to the approach to financial instruments, we believe insurance contracts warrant a business model approach to determine the accounting basis used in the measurement of the liability. There is broad support for this approach in the financial instruments project and it is directly relational to the insurance contracts project as well. Financial instruments and insurance contracts work together in both the pricing of products and the emergence of profitability, and maintaining accounting basis symmetry between the two needs to be a priority for meaningful financial analysis of insurer results.

During the time when the IASB contemplated amortized cost for insurance contracts, there was a general bias in financial reporting around the world for fair value measurements. Through significant
debate and deliberations, that bias has now shifted for international companies to a business model measurement approach. With the issuance of IFRS No. 9 a significant percentage of insurer assets will be carried at amortized cost under IFRS. The FASB ED for financial instruments requires more fair value measurements in the balance sheet than IFRS No. 9, but it still will provide for an amortized cost approach to income recognition. We strongly believe that these developments within the financial instruments reporting model and the necessity for symmetry between financial instruments and insurance contracts warrant a reconsideration of an amortized cost model for insurance contracts.

The proposed approach in the ED to the CFV accounting for insurance contracts, coupled with an amortized cost approach to investments will create significant accounting volatility for insurance entities. The volatility will arise from the unlocking of discount rates for insurer liabilities while carrying assets at amortized cost. While the fair value option could be suggested as a solution for this, it would fall well short of reflecting any meaningful analysis from the change in values of assets and liabilities. This is because the discount rate of liabilities will not match the elements that impact fair values of financial instruments, primarily credit spread. As such, quality analysis of insurer results would require non-GAAP adjustments to strip out artificial volatility caused by the impact of interest rate changes on insurer financial statements. Proposing a standard that will lead to expanded use of non-GAAP measures in our opinion does not achieve the Board’s objective of a high quality standard that will lead to improved decision making for financial statement users.

Another reason to consider an amortized cost basis for insurance contracts is that it effectively eliminates the need for unbundling. The majority of unbundled components for insurance contracts will be either insurance contracts or financial instruments. By aligning the accounting for insurance contracts with financial instruments, the need for unbundling will dissipate. Companies generally price and track performance on a contract as a whole as opposed to separate components. Unbundling creates undue complexity for insurers and will likely lead to confusing results for financial statement users trying to analyze contract profitability. We recognize, however, that even with an amortized cost measurement model, certain components of insurance contracts will continue to require separation such as embedded derivatives which will continue to be reported at fair value.

We believe that an amortized cost approach could be developed using the existing building blocks within the proposed guidance. We also believe that unlocking for assumptions regarding the first building block, expected cash flows, will still be relevant for financial statement users. The primary difference in an amortized cost model would be that discount rates would be locked in at inception. This approach is consistent with the definition of amortized cost recently proposed in the impairment guidance released by the IASB. There would continue to be immediate recognition in earnings of changes in expected cash flows. While this would create volatility in insurer financial statements, we believe that volatility due to changes in expected cash flows would provide the financial statement user with a meaningful data point since it will ultimately impact the earnings and cash flows of the entity.
Conclusion

We do not believe that the proposed guidance presented in the DP in its current state represents an improvement to current U.S. GAAP for the accounting for insurance contracts. We have significant concerns about the use of current fulfillment value as the most appropriate basis for measuring insurance contracts, and we have significant concern about the proposed presentation model, risk margin and discount rate. We believe that insurance contracts warrant a business model approach to determine the accounting basis used in the measurement of the liability which will provide symmetry to the approach used for financial instruments and lead to more meaningful financial statement analysis of insurers’ financial statements. We recommend that prior to issuing an Exposure Draft for insurance contracts, the Board should work with the IASB to revise the IASB’s Exposure Draft for insurance contracts and re-issue a combined ED that will encompass these broad changes in order to produce a high quality converged standard in due process.

Thank you for the opportunity to provide our feedback to a critical project for the life insurance industry. We welcome any comments or feedback that you may have for us throughout your deliberation process.

Sincerely,

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Vice President & Chief Accounting Officer

Robert L. Walker
Senior Vice President & Chief Financial Officer