April 10, 2006

Letter of Comment No: 46
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4-10-06

Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Herz:

Western & Southern Financial Group appreciates the opportunity to comment on the Exposure Draft, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement 115. Western & Southern is a Cincinnati-based, diversified family of financial service companies. With over $37 billion in assets owned and under management, we are a Fortune 500 company operating primarily in life and annuity products. We are organized as a mutual holding company owned by our participating policyholders.

We appreciate the recognition by the Board of the mixed attribute accounting model that exists today and the Board’s desire to address the problems that it causes. While we believe that the fair value option (FVO), if properly applied, can help mitigate some of the issues caused by the mixed attribute model, we feel that there is still much work left to be done. The purpose of our comment letter is not to oppose or praise the FVO but to request the Board accelerate its work on other projects that can provide a more meaningful resolution to the mixed attribute model.

We believe that the current basic financial statements do not provide the proper media for reporting changes in fair value. We further believe that there is still a need for transaction-based accounting and reporting. The concept that fair value would replace the traditional role of accounting as a historical cost accounting model is troubling to us. While we have seen the reports from the CFA and other analyst groups claiming fair value is the only meaningful value to report, we happen to have a different view of that argument. We have a large investment group within our Company and our analysts believe that the accountants should continue to account for cash flows adjusted for timing differences and leave valuation work to the analysts. They believe that an accounting model that is rooted in historical cash flows provides analysts with the baseline to build their own valuation models to determine future cash flows of the organization based on their own market assumptions. A reporting model that would not allow an analyst to determine historical cash flows adjusted for timing differences is concerning to our investment department.

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For this reason, we are requesting the Board accelerate its work on the Financial Performance Reporting Project. Additionally, we request the Board to strongly consider a model that would permit a separate statement that provides for the transaction activity accounted for on a historical cost basis adjusted for timing differences. Effectively, this would be the current income statement without some of the fair value "noise" that has been introduced with the current mixed attribute accounting model. A separate statement can then be prepared and included in the basic financial statements that begins with the transaction-level income statement and layers on changes in fair value. We believe that if the Board focuses this project on the sole purpose of separating realized and unrealized activity between the two statements and not on determining a new and improved measure of operating income, it is a project that would add value to the basic financial statements and provide users with a better view of the company's financial performance. While the need for pro-forma operating results still may exist, the issues that it creates are best addressed by the Securities and Exchange Commission and the analyst community.

What exists today is not a perfect system of financial reporting. The mixed attribute model causes unnecessary volatility in a company's income statement and causes the need to depart from GAAP in reporting the results of operations. While the model is less than perfect, most users and preparers know and understand where the "noise" caused by the mixed attribute model exists within the income statement and can adjust for it in their review of the company's financial statements. Unfortunately, though, the direction of the Board with many of its current projects (Business Combination, Pensions, Liabilities and Equity, FAS 155 and this ED) is making it more difficult to identify and understand where fair value exists within the balance sheet and how it impacts the income statement. The piecemeal approach to fair value of the Board without the proper reporting statement will degrade the value of the income statement and lead to further departures of operating income from net income. While disclosure can assist, the footnotes to the financial statements are already too long and leave users with little ability to quickly understand the performance of the company for the period being presented. Preserving the current income statement by separating fair value changes into another statement will allow the Board the time to determine how and where fair value belongs in the accounting model and will give industry and the analyst community time to determine proper valuation techniques for fair value without adversely impacting the current accounting model in the process.

Thank you for your time and effort on this very important initiative. Should you have any questions or wish to discuss our concerns further, please feel free to contact us.

Sincerely,

Brad Hunker
Vice President and Controller
Western & Southern Financial Group