

# Aflac<sup>TM</sup> Incorporated

Kriss Cloninger III  
President and Chief Financial Officer

March 27, 2009



LETTER OF COMMENT NO.

90

Technical Director  
FASB  
401 Merritt 7  
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File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b

Aflac has an interest in this proposal as a preparer and issuer of its own financial statements and as an investor with a portfolio of over \$68 billion in securities. We support the overall changes in this proposed FASB Staff position (FSP). We would like to offer comments on certain of the questions you proposed as indicated below.

As background which may assist the reader in understanding the views we express, we offer the following comments about our operations. Our business, long-duration life and health insurance, is split between Japan (75%) and the United States (25%) based on revenues. The duration of our insurance liabilities is 14 years and the duration of our investment portfolio is 12 years. Our business has proven to be very predictable; over the last three years our cash flows from operations have been \$4.5 billion or higher each year. We have a small block of business with cash surrender values and the cash value per policy is low; therefore, we do not have a risk of a "run on the bank." With the long duration of our liabilities, the strong cash flows, and no risk of a "run on the bank," we maintain a long-term investment philosophy. Our investments are fixed income in nature and for the most part are fixed maturity investments with the exception of certain hybrid securities primarily issued by banks, and generally referred to as tier 1 and upper tier 2 securities which have characteristics of both debt and equity securities. However, from the date of purchase until today these securities have behaved more like debt securities than equity securities. From our perspective, we are a buy and hold investor whose objective is to service our contract liabilities when they occur. Current market values of the securities we hold are not as important to us as the ability of the issuers to meet their obligations to us under the securities as they become due. Additionally, as a result of the long-term investing horizon associated with our business model, we have a longer perspective on the securities market than one or even five years. We have prospered in the Japan marketplace since 1974 and in the U.S. since 1955 using this business model. We have weathered many economic cycles in both countries and have been able to generate growth in operating earnings per share, excluding currency effects, of 15% or more in each of the last 19 years. Our operations remain healthy and strong in the current cycle. Our investment losses over the years have been much lower than industry averages. We are also

known for transparency in our financial and operational disclosures. Our comments primarily relate to our view of what constitutes meaningful and fair financial reporting from the perspective of our business model.

Question: Does this modification make this aspect of the other-than-temporary impairment assessment more operational (the remaining factors discussed in FSP FAS 115-1/FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, would remain unchanged)?

Response: We endorse the proposal to determine if an impairment is other than temporary based upon management's assertion that "(a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery." We believe this modification will result in financial statements that more fairly present the results that have occurred and are likely to occur based upon management's plans for operating the entity. The "intent and ability" criteria may be a theoretically correct approach to the issue, but a theoretical approach usually assumes a clear-cut set of facts and circumstances as well as the availability of perfect data in support of the conclusions drawn. In practice, facts and circumstances are never as clear-cut as a theoretical approach supposes and may not fit a company's operating model in the manner anticipated in every case. We believe the proposal will allow management and independent auditors to agree on the need for recording impairments in a framework that better reflects the operations of the entity.

Question: Should this modification apply to both debt and equity securities?

Response: We believe this modification should apply to both debt and equity securities. We do believe that as one moves from senior debt to common stock, there is a need to carefully consider the attributes of the security. Some securities, including certain hybrid securities, may act like debt securities at times and then may exhibit more equity like characteristics if the financial conditions and results of operations deteriorate severely. At present we do not believe there is adequate time to consider the issues that result from the broad spectrum of securities; therefore, we support the application of this modification to both debt and equity securities.

We would recommend that it be made clear that the proposed modification does not address the question of the appropriate impairment model to apply to perpetual preferred securities and does not address the issue discussed in Mr. Conrad W. Hewitt's (Chief Accountant at the SEC) October 14, 2008, letter to Mr. Robert H. Herz, Chairman of the FASB. The issue of whether to apply the debt or equity impairment model to these securities requires thoughtful consideration of the various debt and equity characteristics found in these investment vehicles. We do not believe the timeframe contemplated for the finalization and issuance of this proposal is adequate to address the appropriate impairment model to be applied.

If the Board feels it is necessary to address this issue in this pronouncement, then we would encourage the continuation of the application of the debt impairment model to hybrid securities as modified by this proposal. We have a \$9.1 billion portfolio of perpetual securities which consist primarily of bank tier 1 and upper tier 2 securities. We have found that these securities have performed like debt securities even during the current financial crisis in terms of meeting their obligations.

Our experience has been that these hybrid securities are called by the banks when the securities reach their economic or expected maturity dates. We had several hybrid securities that were called in 2008 and several more that are expected to be called in 2009. The expectation of calls in 2009 is based upon the current ability of the banks to financially do so. For several of these calls, the call was not dictated by economics, which were adverse to the bank, but was an honoring of the original stated intent of the securities as well as the realization that capital markets would likely no longer be available to the bank should the securities not perform as expected.

We believe the debt impairment model is more appropriate for these securities based upon our experience to date. We have invested in this type of security since 1993 and have found that they perform as originally expected.

Question: Will this change result in a significant change to the assessment of whether an equity security is other-than-temporarily impaired?

Response: For Aflac, we believe this change will not result in a significant change to the assessment of whether an equity security is other-than-temporarily impaired as long as it carries an investment-grade credit rating. For those equity securities that are rated below-investment-grade, this will change the assessment of whether the security is other-than-temporarily-impaired from a bright-line test based upon duration and severity of the impairment to a test based upon intent not to sell and the probability that the holder will not be forced to sell the security prior to its recovery in value. We do not invest in common stock or pure equity securities. We do have investments, as previously stated, in hybrid securities, which have both debt and equity characteristics. If we determine that the amounts due under any investment are not collectible, we immediately record an impairment charge and frequently sell the security. We perform extensive credit analysis on all of the securities on our watch list and take action if warranted. We believe the proposal will make this process more operational in nature and more practical.

Question: This proposed FSP would require that the portion of an impairment recognized in other comprehensive income for held-to-maturity securities be amortized (through other comprehensive income) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset (that is, an entity would not be permitted to adjust the fair value of a held-to-maturity security for subsequent

recoveries in the fair value of the security similar to the accounting for available-for-sale securities). Do you agree with this requirement?

Response: We agree with this requirement. We would encourage the Board to allow the recognition in the income statement of any recovery of value related to an impairment recorded through the income statement.

Question: Is the proposed effective date of interim and annual periods after March 15, 2009, operational?

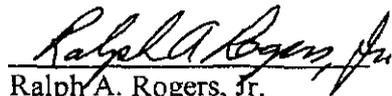
Response: This is a very ambitious schedule but achievable assuming the requirements outlined in the proposal do not change appreciably.

We appreciate the opportunity to comment on the proposal and trust our comments will prove helpful to the process.

Sincerely,



Kriss Cloninger III  
President and Chief Financial Officer



Ralph A. Rogers, Jr.  
Senior Vice President and  
Chief Accounting Officer