

Allianz of America Corporation



March 16, 2007

LETTER OF COMMENT NO. 601

Technical Director - File Reference No. 1510-100  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: Proposed Statement of Financial Accounting Standards  
Disclosures about Derivative Instruments and Hedging Activities

Dear Sir or Madam:

Allianz Life Insurance Company of North America (Allianz Life) is a wholly owned life insurance company of Allianz SE, an international insurance organization. We appreciate the opportunity to comment on this Exposure Draft (ED) and apologize for not submitting prior to March 2, 2007.

Allianz Life supports the objectives as stated in the ED. We favor a principles-based approach to improve disclosures about derivatives. While supporting the objectives, we would like to comment on several of the issues and preliminary conclusions listed in the ED.

*Issue 1: Do you agree with the Board's decision to exclude from the scope of this proposed Statement prescriptive guidance about how derivative instruments should be presented and classified in the financial statements?*

We agree with the Board's conclusion to exclude prescriptive guidance for how derivative instruments should be presented and classified in the financial statements. As described below, we believe we can better meet the objectives listed in paragraph 1 of the ED if we have the flexibility to add non-derivative information to the quantitative presentation, and relate it directly to how we identify and manage risk.

*Issue 3: This proposed statement would require an entity to provide information on derivative instruments including notional amounts, fair value amounts, hedged items, related gains and losses, by primary underlying risk, accounting designation (fair value hedge, cash flow hedge, foreign exchange hedge, and derivatives not designated as hedging instrument under SFAS 133), and purpose. Do you foresee any significant operational concerns or constraints in compiling the information in the format required by this proposed statement? Are there any alternative formats of presentation that would provide the data more concisely?*

We are against requirements to classify derivatives by underlying risk as we believe this is contrary to the objectives outlined in paragraph 1 of the ED. We also feel that a classification structure that requires separating derivatives between those owned at the balance sheet date from those not owned is misleading. The impacts and locations of all derivative positions should be identified in the financial statements without artificial classifications.

Our life insurance and annuity products have benefit structures that include (a) embedded derivatives bifurcated according to SFAS 133 and (b) non-derivatives valued according to other rules including AICPA Statement of Position 03-1. We use a dynamic model primarily consisting of bonds (held for trading according to SFAS 115), calls, puts, and futures to hedge and manage these risks. Further, this hedging model is an aggregate model where detail break-outs by underlying risk are not meaningful because of cross-hedging dynamics in both the product liabilities and the hedging portfolio. All of these derivatives are in the "Derivatives Not Designated as a Hedging Instrument under SFAS 133" accounting designation. The derivatives embedded in our insurance products are very long-term, spanning multiple years. Although many have notional amounts consistent with the policy value, the value of these derivatives is heavily influenced by policyholder timing, termination, and utilization assumptions. They are generally classified as liabilities, depending on the structure of the derivative that was bifurcated from the hybrid contract. Again, depending on the structure of the bifurcated derivative, policy values may not be an appropriate indicator of risk associated with these product derivatives.

Our matching of product derivatives is accomplished through bonds and a combination of hedging derivatives. Contrary to our product derivatives, these hedging derivatives are short-term, usually less than 12 months in duration, and continuously rolled over. Some of these hedging derivatives are classified as assets, some as liabilities, in the balance sheet. The amounts and positions of new hedging derivatives are determined to reflect the combination of risks and cross-hedges in our existing portfolios. These short-term hedging derivatives typically do have a notional or stated value.

Most of the product derivative gain /loss is associated with "positions open at the end of the period." On the other hand, much of the hedging derivative gain/loss is associated with "positions that are no longer open at the end of the period." Requiring such a break out, in our opinion, will not add to the understandability of our financial statements and will not accomplish the objectives in paragraph 1 of the ED.

We encourage the Board to provide flexibility for the format of the footnote disclosures. In our case, a meaningful format would include identifying and locating our product embedded derivatives and related activity in the financial statements. We would show the aggregate results of our hedging program including, and separately identifying, both the derivatives and non-derivatives (related activity) that hedge the product derivatives.

*Issue 4: This proposed statement would require disclosure of (a) the existence and nature of contingent features in derivative instruments (for example, payment acceleration clauses), (b) the aggregate fair value amount of derivative instruments that contain those features, and (c) the*

*aggregate fair value amount of assets that would be required to be posted as collateral or transferred in accordance with the provisions associated with the triggering of the contingent features. Do you foresee any significant operational concerns or constraints in compiling that information?*

We do not foresee any issues with providing this information. Again, we encourage flexibility in how and to what level it is aggregated.

*Issue 5: Do you agree that this proposed statement should require disclosure of notional amounts?*

No. Notional information is only valuable to the extent it can be understood to calculate exposures. Some of our product derivatives have a payment provision instead of a notional amount. Others have a policy value representing a notional, but this value does not always provide a meaningful measure of exposure. In terms of some of our hedging derivatives, notional is not meaningful narrative disclosure would probably need to be added to cover the desired transparency.

*Issue 6: Do you agree that this proposed statement should not require the disclosure of the aggregate notional amounts related to derivatives that no longer exist at the end of the reporting period?*

We agree that gains and losses in respect to derivative positions should be disclosed, and we agree that notional amounts should not be required. As previously stated, separating derivatives into not-owned and owned at the end of the period does not contribute to understanding how and why Allianz Life uses derivative instruments. As previously stated, we have product embedded derivatives which will continue for years, while the hedge derivatives are short term.

*Issue 7: The Board decided that an entity would not be permitted to include information in the tables on "hedged items" that are not in designated and qualifying Statement 133 hedging relationships because "economic hedging" means different things to different people. Do you agree that information about "hedged items" that are not designated and qualifying Statement 133 hedging relationships should be excluded from the disclosure tables? Why or why not?*

We disagree with the Board's conclusion. As illustrated from our prior comments, none of our derivatives are designated for hedge accounting under SFAS 133. For Allianz Life to effectively disclose how and why we use derivatives as stated in the objects of the exposure draft, it is important to understand the risk management picture including non-derivatives and "economic hedges". Without such a picture, a user has no basis by which to judge the results of our use of derivatives.

*Issue 8: Under this proposed statement, quantitative information about non-derivative instruments used as part of an entity's overall risk management strategy would not be included in the disclosure tables. However, paragraphs 44 and 45 of Statement 133 would permit an entity to provide qualitative and quantitative information about the derivatives included in the disclosure tables as those derivatives (a) relate to the overall context of its risk management activities and (b) are related by activity to other financial instruments. Do you agree that information that could be provided in the qualitative and quantitative disclosure encouraged by paragraphs 44 and 45 of Statement 133 would be sufficient to appropriately inform users of financial statements about the risk management strategies of an entity?*

For the reasons previously described, we believe that this information is necessary for users to understand Allianz Life's use of derivatives. However, we also understand that most entities are not insurance companies, and how they address the objectives will necessarily differ.

*Issue 9: This proposed Statement includes examples of qualitative disclosures about objectives and strategies for using derivative instruments, contingent features in derivative instruments, and counterparty credit risk. Are these examples helpful in communicating the objectives of providing information on how and why an entity uses derivatives and the effect of derivatives on an entity's financial position, results of operations and cash flows?*

Yes, the examples are helpful and provide a sense of the information desired. We are concerned that excessive and required disaggregation of derivative information will not accomplish the objectives of the ED.

In conclusion, we agree with the objectives stated in the ED, and the need for such information. We encourage the Board to not specify formats for qualitative disclosures about the objectives and strategies for using derivative instruments. We believe we should be allowed some flexibility in how to address Allianz Life's position for

1. How and why we uses derivatives;
2. How derivative instruments and related hedged items are accounted for; and
3. How derivative instruments affect our financial position, results of operations, and cash flows.

Thank you for your consideration.

Sincerely,



Jill Paperson  
EVP & CFO