

September 30, 2010 Mr. Russell G. Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Sent via e-mail to: director@fasb.org

Re: File Reference No. 1810-100; Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

On behalf of The Northwestern Mutual Life Insurance Company ("Northwestern Mutual"), we are pleased to offer our comments and perspective on the Financial Accounting Standards Board's ("FASB") proposed accounting standards update entitled *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* ("proposed update").

Northwestern Mutual, headquartered in Milwaukee, Wisconsin, was founded in 1857 and today is the country's 10th largest life insurance group based on total assets. We offer our policyowners a full array of life insurance products, including permanent whole life, term and universal life. In addition, we offer annuities, disability and long-term care insurance. Our company continues to earn the highest available ratings for financial strength from each of Standards & Poor's, Moody's Investor Services, Fitch Ratings and A.M. Best.

We generally support the FASB's objectives to achieve convergence with the International Financial Reporting Standards ("IFRS"), to provide financial statement users with a more representative view of an entity's use of financial instruments and to reduce the associated accounting complexity. We are concerned, however, that the proposed update will not further or achieve these objectives and may in fact have the opposite effect.

We are also surprised and disappointed that the recent proposals from the FASB and International Accounting Standards Board ("IASB") regarding financial instruments are fundamentally divergent. We are hopeful that future joint projects can be more unified and organized in a way that attempts to reconcile the different views of these two important groups before the solicitation of public comments.

Our specific concerns and suggestions are summarized topically below. More detailed responses to the specific questions asked of respondents in the proposed update are included in an appendix. Please note that certain questions/responses are omitted if they are less relevant to our business as we defer to those with more relevant input.

Use of Fair Value

As a mutual life insurer, our first priority is to pay contractual insurance claims and benefits to policyowners and their beneficiaries when due. In addition, the vast majority of our insurance in-force is participating, such that any favorable investment returns, claims experience or operating costs can be returned to policyowners in the form of dividends. These dividends are declared annually by the company's Board of Trustees after provision for amounts necessary to retain in surplus to maintain our long-term financial strength. Like most insurers, we invest in financial instruments to earn a return on policyowner premiums paid pending the ultimate payment of policy benefits, including dividends. We are a diversified and long-term investor, as our policyowner relationships and investment horizon often span several decades.

Our \$140 billion general account investment portfolio is allocated approximately 85% to fixed income investments, primarily public and private bonds and commercial mortgage loans. We invest primarily in these asset classes due to the relative predictability of their contractual cash flows (i.e., interest income and return of principal) and the modest and relatively predictable credit losses that can be expected based on our historical experience and diligent credit underwriting prior to investment. This includes active monitoring of investments once made, including discussions with investees about their expectations for future operating performance.

We are concerned that the proposal to require the use of fair value for most of these investments will result in financial statements that are not representative of the realities of our business model or the purpose for which we invest in these fixed income securities. Private bonds and commercial mortgage loans are generally held to maturity once originated. We do trade public bonds prior to maturity, but these trades are generally made to adjust our portfolio duration, tolerance for credit risk and to take advantage of perceived market opportunities. Nonetheless, the overarching investment objective is the same – to earn a predictable interest return pending the contractually-specific return of principal based on face amount.

As a result, we believe that the face amount of these securities is the most relevant basis for financial statement presentation, adjusted for any purchase discount or premium (i.e., amortized cost) or any necessary estimate of ultimate credit loss (i.e., impairment). Short-term fluctuations in the fair value of these securities are typically related to changes in market interest rates, including changes in market credit spreads driven by broad market perceptions of changes in credit risk for a given asset class. These fluctuations are generally temporary and tend to reverse as the security matures and the date of principal repayment approaches.

Fair value presentation may be most relevant for entities such as mutual funds, where a daily liquidation value is needed to equitably meet purchase and redemption requests. These fluctuations are of little interest or consequence to our policyowners, regulators and other stakeholders in determining how effectively we are managing the company. This is because they generally do not affect the contractual investment cash flows that are ultimately the source of our ability to pay policy benefits and reinforce our capital position. As a result, we support the use of amortized cost for these investments within a "mixed-measurement" model similar to that proposed in the alternative viewpoint of the proposed update and supported by the IASB.

Credit Impairments and Interest Income

We understand the conceptual appeal of better matching, in both timing and financial statement classification, the impact of actual credit losses with the receipt and recognition of the periodic interest payments that compensate bond and mortgage holders for taking credit risk. We are concerned that the proposed method for estimating and recognizing credit losses prior to reliable evidence of the potential credit impairment of a given security will necessarily rely on the application of broad statistical loss estimates to entire portfolios, most of which will meet their contractual interest and principal payments in full. This would seem to cloud, rather than clarify, a financial statement user's view of the reporting entity's actual credit loss experience and likelihood of future losses. We support an accounting model that only recognizes credit losses if and when some reasonable probability of loss has been made evident based on the specific facts and circumstances of a given security and its issuer.

In addition, we are concerned that the methods for estimation of future impairment losses under the proposed update would limit assumptions necessary to make these estimates to only those economic conditions that exist at the financial reporting date. This is not consistent with the way in which investors evaluate the risk/reward profile of continuing to own a given security. It also invites unwarranted volatility in these future loss estimates, as future losses will likely be understated at the more favorable points in natural credit and market cycles and overstated at less favorable points. This pro-cyclical tendency would not seem to serve the best interests of either users or preparers of financial statements. Many other aspects of financial reporting require informed and supportable estimates about future trends and events, including insurers' estimates of liabilities for future policy benefits.

Lastly, the expectation in the proposed update that allowances associated with these periodic estimates of future losses would be established, maintained and amortized on a security-level would greatly increase both complexity and operational costs with no discernable benefit.

Equity Method Accounting

Northwestern Mutual has significant investments in limited partnerships and joint ventures that invest in private securities pools, real estate and other underlying investments. These investments would typically not be appropriate to fully consolidate into the company's financial statements due to limitations on control and other factors. The proposed update would limit the use of equity accounting for these investments in favor of valuation based on an estimate of fair value. These investments are typically illiquid, with the ultimate return determined primarily by the net results of the entity's operations and thereby its distributable net cash flow. The use of fair value estimates for valuation of these investments would also invite unwarranted volatility into the investor's financial statement results. We believe that the most appropriate financial statement basis for these assets remains the equity method, which is based on an investor's relative share of the underlying GAAP equity of the investee.

Relationship to Insurance Contracts

As noted above, there is an integral relationship between the ultimate returns from a mutual life insurer's investments in financial instruments and the resources available to pay policy benefits, including participating dividends. In order to assure that the eventual accounting and financial

reporting model for companies like ours is coherent overall and representative of the economics of our business, we strongly suggest that any implementation of significant change in accounting for financial instruments be deferred and coordinated with the ongoing *Insurance Contracts* project. Piecemeal implementation of changes that do not acknowledge this integral relationship risk the result of an accounting model that is inconsistent with the interests of our policyowners, regulators, creditors and other stakeholders.

Users' Perspective

As noted above, our company is also a significant investor that relies on general purpose financial statements as part of our underwriting for new investment decisions and for ongoing monitoring. The foundation of our financial statement analysis is an evaluation of an investee's ability to generate future cash flows in order to fund operations, meet contractual debt service obligations, generate growth capital and/or provide stock dividends and other value for shareholders. This focus assumes that the entity will continue to operate as a going concern, absent any evidence to the contrary. For many of the same reasons noted above, the use of amortized cost (based on the contractual face amount of expected settlement) is typically most appropriate for investee fixed income investments and debt obligations. Analysis of the entities implied liquidation value, enabled by fair value disclosures, is complimentary and can be particularly valuable when there are legitimate concerns about solvency or liquidity crises. However, requiring all financial instruments of an investee to be measured at fair value, whether changes are reported in net income or comprehensive income, overemphasizes liquidation value in most cases and compels analysts to make pro forma adjustments to reported earnings or equity to produce decision-useful information.

We appreciate the opportunity to comment and would welcome additional dialogue on these important topics and other matters cited in the appendix. Please contact Walter Givler (wallygivler@northwesternmutual.com) if you desire clarification of our comments or would benefit from additional input.

Sincerely,

Mark G. Doll

Chief Investment Officer

Son Chilly

Mark & Del

John C. Kelly

Vice President and Controller

Michael G. Carter Chief Financial Officer

Michael & Carter

Walter M. Givler

Vice President, Accounting Policy

Walter M. Linler

APPENDIX - Responses to the Questions for Recipients Contained in the Proposal

We have limited our responses to questions we believe our views are most relevant and consistent with our support of a mixed-measurement model for financial instruments.

Scope:

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

No. As noted in our summary response, we support a mixed-measurement model that includes the more flexible use of amortized cost, similar to that proposed in the alternative viewpoint or being supported by the IASB. Decision-useful information is best provided when the measurement model reflects the purpose for which we invest in the instruments and the intent to hold certain investments for the collection of contractual cash flows, where applicable. The expansion of the scope to include all assets such as loans and receivables increases the number of assets for which fair value is not the most appropriate basis of presentation. For example, our substantial mortgage loan portfolio of in excess of \$20 billion is not actively traded and is held almost exclusively for the collection of contractual cash flows. "Fair value" is not only more subjective but does not reflect the business reasons for holding the investments. Accordingly, we support an amortized cost option for assets that are held for the collection of contractual cash flows.

It is unclear if the proposed update scope includes policy loans on insurance contracts. We believe policy loans should not be included within the scope of the proposed update but included within the scope of the insurance contracts standard as they are integral to the cash flows associated with the insurance liability.

See also our response to questions 3 & 4.

Question 3: The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit-type and investment contracts should be included in the scope? If not, why?

No. We do not believe fair value is the appropriate measurement basis for deposit-type and investment contracts of insurance companies. These contracts are settled at a contractual amount and fair value measurement has no bearing on expected cash outflows. Within an appropriate mixed-measurement model, we agree that pure investment contracts with no insurance risk may be more appropriately included within the scope of the proposed update. However, when deposit-type investment contracts include insurance risk, we believe they are more appropriately included within the scope of the insurance contracts standard.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

No. We disagree with the criteria in the proposed update that limits the use of equity method accounting for only those investments that are related to the investor's operations. Northwestern Mutual has significant investments in limited partnerships and joint ventures that invest in private securities pools, real estate and other underlying investments. These investments are typically illiquid, with the ultimate return determined primarily by the net results of the entity's operations and thereby its distributable net cash flows. The use of fair value estimates for valuation of these investments would also invite unwarranted volatility into the investor's financial results. We believe this will lead to the lack of consistency and comparability in the accounting for the same investment by different financial statement preparers. Lastly, there will be lack of consistency with the consolidation rules and the long established practice of equity method accounting mirroring those rules and lack of consistency with the IASB.

Initial Measurement:

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

No. As explained in our general response, we believe a mixed-measurement model including amortized cost better achieves the objectives of financial reporting rather than the all-inclusive fair value measurement model included within the proposed update.

For financial instruments acquired to be held for collection of future cash flows, initial measurement should reflect the transaction price since this represents the appropriate initial cost basis for these instruments and is consistent with the utilization of amortized cost for subsequent measurement. The subsequent amortization of initial premium or discount appropriately reflects the initial expected yield, and actual interest earned, as interest income and systematically values the financial instrument over time toward ultimate contractual settlement.

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

No. In general, we agree that initial measurement at fair value is appropriate for financial instruments not held for the collection of contractual cash flows. We believe that in the case of an arm's length transaction between unrelated entities, there is a default assumption that absent clear and compelling evidence to the contrary, the price on the transaction date is representative of fair value. We would anticipate situations to the contrary to be extremely rare.

Developing processes, controls and documentation to distinguish a hypothetical difference between transaction price and fair value would be onerous and their separate reporting would provide little, if any, additional useful information to users of financial statements.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

Yes. See our responses to questions 8 & 9.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

- (1) No. For financial instruments where fair value measurement through net income is appropriate, immediate income statement recognition of transaction fees and costs is achieved through recognition of unrealized gains (losses). We question whether reporting these expenses separately in the income statement, including for investments where fair value measurement through other comprehensive income is appropriate, provides decision-useful information.
- (2) Yes. For financial instruments where amortized cost is the appropriate subsequent measurement basis, deferral and amortization of transaction fees and costs is appropriate since they are a component of cost.

We also note that the proposed update does not clearly define "transaction fees and costs." While the identification of transaction costs is fairly straight forward for certain instruments (e.g., brokerage commissions for publicly-traded common stocks), a precise definition will be necessary for others (e.g., bonds with bid/ask spreads and mortgage loans) in order to achieve consistency across entities.

For financial instruments where amortized cost is the appropriate subsequent measurement basis, deferral and amortization of transaction fees and costs is appropriate since they are a component of cost.

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

No. Absent a clear presumption that that transaction price is representative of fair value for financial instruments acquired in an arm's length transaction between unrelated entities, we believe the guidance in the proposed update would require the incurrence of substantial cost to make operational. The need to document evidence of fair value for all transactions, independent of transaction price, would be extremely onerous and operationally burdensome while providing little, if any, additional useful information to users of financial statements.

Subsequent Measurement:

Question 13: The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

No. We disagree with the proposed use of fair value measurement through net income as the default measurement attribute. The more flexible use of amortized cost and fair value measurement through other comprehensive income is appropriate to distinguish the differences between different financial instruments, the purpose of the entity's involvement with those financial instruments and the business model of the entity. The default measurement attribute of fair value through net income distorts the core earnings of an entity that holds financial instruments for the collection of contractual cash flows, does not reflect its value as a going concern. We therefore support the more flexible use of amortized cost and fair value through other comprehensive income as proposed by the IASB or expressed in the alternative viewpoint.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets) and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

No. We do not believe any other fair value changes should be recognized in net income for such financial instruments. Interest income, credit impairments and realized gains and losses should be determined and presented separately. Interest income should reflect contractual interest adjusted for the amortization of initial premium or discount. As expressed in the alternative viewpoint, the current interest income recognition model that reflects contractual interest, adjusted for initial premium or discount, is well understood by users of financial statements.

Question 16: The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

No. We believe prohibiting reclassification is inconsistent with the principle that the measurement attribute should reflect the use of the financial instrument. Should this change, reclassification should be allowed, subject to appropriate disclosure.

Question 21: The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer's perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing US GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principal will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

No. We do not believe it is appropriate that a conversion feature automatically precludes fair value measurement through other comprehensive income when the investment would otherwise qualify for such treatment. The investor's principal amount is still returned at maturity or other settlement. No distinction needs to be made in regards to the form of that settlement (i.e., cash or equity securities).

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Question 28: Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?

No. We support the more flexible use of a mixed-measurement model including fair value measurement through other comprehensive income and amortized cost. We believe the proposed criteria are too restrictive.

Question 29: Do you believe that measuring financial liabilities at fair value is operational? If not, why?

Generally no. In many instances there is no active market or observable market inputs for these instruments. This introduces subjectivity and inconsistency in their valuation and subsequent reporting.

Credit Impairment:

Question 37: Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?

No. The objective as described in paragraph 36 in our view includes a methodology which clouds the clarity of the objective. We believe that the impairment objective should be based on an entity's expectation of future cash flows but this expectation should reflect management's future outlook which is critical to a useful internal assessment of the asset. Like other areas of financial reporting (e.g., contingencies, pension liabilities, insurance reserves, income from long-term contracts, deferred tax recoverability) estimates of uncertain outcomes require assumptions about the future. We do not believe the estimation of credit impairment losses is any different.

See also our response to question 38.

Question 38: The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s).

The IASB Exposure Draft, Financial Instruments: Amortised Cost and Impairment (Exposure Draft on impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an impairment gain or loss.

Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

We welcome guidance that recognizes credit impairment consistently across all asset classes, thus replacing the multiple impairment models that are in use today. While the IASB's proposal has strong conceptual appeal we believe it is too operationally complex to implement effectively. The expectation that allowances associated with these periodic estimates of future losses would be established, maintained and amortized on a security-level would greatly increase both complexity and operational costs with no discernable benefit.

We also do not agree with determining interest income net of credit allowance. Interest income, as currently reported, is transparent and well-understood by financial statement users. Introducing complexity and subjectivity into this amount by co-mingling interest and credit components reduces rather than enhances decision usefulness. Moreover, this has the impact of allowing credit losses to be recognized without reporting the losses by in effect understating interest income. Obscuring true credit-related losses within the financial statements will be both confusing and misleading.

Question 39: Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?

Yes. We agree that changes in foreign exchange rates, expected prepayments and variable interest rates are not credit events and their impact should not result in a credit loss.

Question 40: For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?

No. We support the FASB's decision to not prescribe a specific methodology. This flexibility will allow for entities to appropriately address the unique facts and circumstances surrounding a particular pool of investments when developing an estimate of credit impairment loss.

Question 41: Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should

recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?

No. As noted in our response to question 38, we do not believe credit impairments should be commingled with interest income recognition.

Question 42: If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that a credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?

No. We do not believe it is appropriate for assets being evaluated on an individual basis, with no indication of being impaired, to also be included in a group of similar asset to which a historical loss rate is applied. Collectively, for all assets for which an individual credit impairment assessment has been made (i.e., impaired and not impaired), the best estimate of expected loss has already been determined.

It is also not clear if paragraph 65 requires an asset to be included in a pool, even if a pool of similar assets does not actually exist within the entity's asset portfolio. If the intent is that inclusion in a pool is always warranted, even if that pool is a hypothetical group of assets, we believe there is even less theoretical support. We believe that the use of a pool of financial assets for credit impairment should only be required and/or allowed when the entity holds a group of assets meeting the similar risk requirements of paragraph 57.

Question 46: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectibility of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on Impairment proposes an expected loss approach and would require an entity to estimate credit losses on basis of probability-weighted possible outcomes.

Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or

economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?

We disagree with the requirement that assumes current economic conditions remain unchanged throughout the remaining life of the asset when determining expected credit losses.

At the same time, we do not support the IASB requirement to give consideration to all possible future outcomes on a probability-weighted basis. While we understand the conceptual appeal of this approach, it would be extremely subjective, complex and onerous to execute.

Accordingly, we advocate an approach that allows an entity the flexibility to use its best estimate when determining future cash flows. This estimate should incorporate past events, current conditions and forward-looking information that is reasonable, observable or consistent with the entity's analysis.

Interest Income:

Question 48: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?

No. We do not agree with the comingling of interest income and credit impairment and believe it is in direct contrast to the stated goals of simplification and enhancement of comparability. This guidance will transform what is currently a transparent and well-understood concept for interest income recognition, obscure credit impairment and make the process overly complicated, less transparent and less decision-usefulness.

Question 49: Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?

No. As demonstrated in paragraph IG118, collection of interest in excess of the amount accrued can result in an allowance that exceeds the appropriate amount, requiring a release of the excess allowance through the provision line item. This effectively obscures the true credit provision amount by understating actual interest income, a result that will likely confuse users of the financial statements and reduce the decision-usefulness of the financial statements.

Question 50: The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets

measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?

Yes. We believe interest income recognition should be based on contractual interest adjusted for amortization of premium or discount determined at acquisition.

Question 51: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?

No. Comprehensive examples with journal entries that cover the life of an investment and demonstrate the relationships between initial measurement, subsequent measurement, interest income recognition and impairments, including for pools of assets with impairment, would be welcomed and help ensure proper implementation and consistent application.

Hedge Accounting:

Question 56: Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?

We believe that using the same measurement basis for assets, liabilities and associated hedges is desirable because it tends to allow the periodic changes in value of the instruments to be reported in a way that reflects their interrelationship and how an entity is managing the economics of the instruments. Using consistent measurement bases for related financial instruments eliminates unnecessary and distortive fluctuations in earnings and equity.

We agree with the proposed change to lower the threshold from "highly effective" to "reasonably effective" as the latter is more closely aligned with actual hedging strategies. Additional guidance may be necessary to help clarify what is required for the qualitative assessment to demonstrate that a hedge is "reasonably effective." As a life insurance company, certain of our hedging strategies are executed on a portfolio basis and it is unclear if these hedging strategies would qualify as accounting hedges. We understand IFRS has more flexible rules surrounding portfolio hedging accounting.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?

No. We agree with the guidance in paragraph 117 that suggests a subsequent reassessment of effectiveness is required only when there are changes in circumstances that suggest that the hedging relationship is no longer reasonably effective.

Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?

Yes. We believe discontinuance of hedging relationships currently occur, in part, due to challenges in meeting the stringent rules-based guidance rather than any true change in the economics of the hedging relationship. The proposed guidance should reduce this type of "mechanical" discontinuance.

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?

No. We believe the proposed guidance related to calculating ineffectiveness for cash flow hedging relationships is operational.

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

No. We believe that our current investment risk management processes and procedures could be readily leveraged.

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply de-designating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

We do not agree with the inability to de-designate a hedging relationship. Moreover, requiring entities to enter into an offsetting relationship in order to effectively de-designate a hedging relationship unnecessarily increases costs and complexity and diminishes the ability to appropriately manage hedging relationships.

Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?

Yes. The specific requirement that the offsetting derivative instrument must "fully offset" the hedging derivative is operationally problematic. This further implies a mirror image instrument is available in the market and limits the ability to terminate a hedging relationship.

Disclosures:

Question 65: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?

No. In general, we are a strong advocate of a mixed-measurement model for financial instruments. Where amortized cost is appropriate for both initial and subsequent measurement, estimated fair value information provides users with supplemental and potentially decision-useful information. We support comprehensive, consistent disclosure of this information within the footnotes of the financial statements. Much of the proposed disclosures surround guidance we believe is not decision-useful (e.g., interest income accrual, the fair valuation of liabilities) and therefore only serve to help explain what has become less clear in the first place.

Effective Date and Transition:

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

Yes. Given the scope of the proposed changes, we believe the transition requirement for a cumulative-effect type adjustment is more practical than full retrospective restatement of the financial statements.

Question 69: Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than \$1 billion in total consolidated assets? If not, why?

We support an effective date that allows for an adequate implementation period for all financial statement preparers.

Ouestion 70: How much time do you believe is needed to implement the proposed guidance?

The amount of time needed for transition will depend upon the final guidance. If issued in its current form, transition will require the development of new methodologies, processes and

related controls including the modification of existing systems. While difficult to estimate precisely, transition would be a multi-year effort.

Question 71: Do you believe the proposed transition provision is operational? If not, why?

The transition provisions of the proposed update are operational but will add significant additional strain on personnel and system development projects. This strain is compounded by the expected impact of the other new and significant accounting guidance that will impact our industry. An adequate implementation period is an important consideration in this context.