

The Company You Keep®

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Ms. Leslie F. Seidman, Acting Chair Financial Accounting Standards Board 401 Merrit 7 Norwalk, CT 06856-5116

Re: Insurance Contracts Discussion Paper

Dear Ms. Seidman:

The New York Life Insurance Company (New York Life) welcomes the opportunity to provide comments on the Insurance Contracts Discussion Paper (DP). We have focused our comments on a small number of issues that we believe are significant to the industry and New York Life. We have also provided a proposed solution for valuing the insurance liability at the date of transition.

Discount Rate Used to Calculate the Liability

The proposed guidance divorces the valuation of assets from the liabilities that the assets are supporting. Our business model is such that the ultimate fulfillment of the liabilities we issue are largely dependent on the performance of the supporting assets and fulfillment occurs over a very long period of time (sometimes up to 50 years or longer).

Accordingly, we believe that the discount rate used in valuing the liabilities should more closely reflect the long term expected rate of return on the assets. Using the proposed methodology for long duration life insurance contracts will likely result in non-economic day one losses (because the interest rate on the liabilities will more than likely be lower than the discount rate on assets) that could be very significant in certain situations and will be misleading to financial statement users. Additionally, valuing liabilities by discounting at low risk-free rates will materially overstate liabilities and will create volatility in the financial statements (i.e. earnings and equity) as risk-free rates change. Also, an add-on to the risk-free rate for a liquidity premium is arbitrary and theoretically unjustifiable.

Margins

We support the FASB's tentative conclusion to require only a composite margin rather than the IASB's proposed risk and residual margin. While we believe that each company should provide information to users on its risks, we believe this is most effectively done in the Notes to the Financial Statements and the MD&A rather than in the Balance Sheet.

Issues Concerning the Expected Future Cash Flows

Treatment of Policyholder Dividends

The proposed IASB guidance for calculating the present value of future cash flows includes a provision for policyholder dividends payable to both present and future policyholders. We recommend that cash flows included in the liability for insurance contracts be limited to expected future payments only on policies in force. In addition, we believe that financial statement preparers should be required to disclose the value of the expected dividend payments included in the liability that are not contractually required. If an insurer has a legal obligation to make payments to future policyholders, a separate liability should be established with additional disclosure details provided to enhance transparency.

Acquisition Expenses

The proposed guidance limits acquisition expenses that can be included in the liability cash flows to only variable compensation. To provide for a better matching of revenue and expenses, thereby producing financial results that better reflect the actual experience compared to how we price and manage the business, we recommend that the final standard include the language that was recently adopted for US GAAP in ASU Update No. 2010-26 Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts and that language similar to that in US GAAP be added for direct marketing expenses. This language is found in section 340-20 Capitalized Advertising Costs of codified US GAAP. Otherwise, the accounting provisions would be giving preferential treatment to one distribution channel over another.

A Solution for Transition

Unlike the new business calculation, the IASB's transition guidance excludes a residual margin in the liability for inforce contracts. As noted above, the residual margin primarily represents the present value of expected non incremental acquisition costs, general and administrative expenses and taxes. If, as companies incur these expenses on the inforce business, there is no residual margin to offset these expenses, there will be an on-going loss from policies in force.

Our preferred solution to this problem is to use an approach similar to that used in acquisition accounting where a Value of Business Acquired (VOBA) is established. The company would calculate the present value of future cash flows using all expected cash flows including non incremental acquisition costs, general and administrative expenses and taxes. This calculation, based on well-established actuarial techniques, would therefore provide for a reasonable residual margin on top of the estimated cash flows.

Other Issues

In addition to these issues, there are a number of other issues on which we have concerns. Among them are financial statement presentation, unbundling and disclosures (in addition to the comments above). Our positions on these and other items are substantially reflected in the Group of North American Insurance Enterprises' comment letter.

We hope this letter is helpful in your deliberations on this standard that is so important to our industry and the worldwide economy. If you have any questions, please don't hesitate to contact us.

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