



LETTER OF COMMENT NO. 30

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GNAIE
Group of North American Insurance Enterprises
40 Exchange Place, Suite 1707
New York, NY 10005
UNITED STATES

January 15, 2009

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: File Reference Proposed FSP FAS 107-a

Dear Mr. Golden:

The Group of North American Insurance Enterprises ("GNAIE")¹ appreciates the opportunity to respond to the Proposed FSP FAS 107-a ("Proposed FSP").

We are encouraged by the Proposed FSP's acknowledgement that significant issues exist with the measurement of financial instruments at fair value in situations where markets are inactive, illiquid, or otherwise not orderly. We are, however, concerned that the Proposed FSP attempts to address the existing measurement issues through disclosure only. As we have indicated in the past, we do not believe increased disclosure is an appropriate remedy for sub-optimal accounting.

GNAIE believes the Proposed FSP represents "a step in the right direction", however, due to the proximity of the date financial statements are required to be filed with the Securities and Exchange Commission, together with the existence of significant interpretive issues that remain unresolved, we believe the Proposed FSP is not implementable as of December 31, 2008. Moreover, given the requirement that disclosures required by the Proposed FSP be presented in the financial statement footnotes; even an expedient resolution of the existing interpretive issues would prove problematic for reporting entities who would have insufficient time to develop and implement processes to obtain the required information in a manner capable of withstanding the rigor of both a financial statement audit as well as an audit of disclosure controls and internal controls over financial reporting as required under the Sarbanes-Oxley Act ("SOX").

¹ GNAIE consists of the Chief Financial Officers of 18 leading insurance companies including life insurers, property and casualty ("non-life") insurers, and reinsurers. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations. All are major participants in the US markets.

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As a result of the preceding, GNAIE recommends the FASB delay the effective date of the Proposed FSP until such time as all significant interpretive issues are satisfactorily resolved and reporting entities are provided sufficient time to develop and implement processes to obtain the required information in a manner capable of withstanding the rigor of both a financial statement audit as well as a SOX audit.

Responses to the questions posed in the Proposed FSP, including identification of the significant unresolved interpretive issues, are attached as Appendix I

Sincerely,

A handwritten signature in black ink that reads "Kevin Spataro". The signature is written in a cursive, slightly slanted style.

Kevin Spataro
Chairman, Accounting Convergence Committee
Group of North American Insurance Enterprises, Inc.

APPENDIX I

- 1. Do you believe that requiring disclosure of different reporting measurement attributes (that is, as reported in the statement of financial position, at fair value, and at the incurred loss amount) for certain financial assets within the scope of this proposed FSP would (a) improve the quality of information provided to users of financial statements and (b) increase the comparability of financial statements under U.S. generally accepted accounting principles (GAAP) and IFRS? Why or why not?**

RESPONSE: GNAIE believes the disclosures in the Proposed FSP represent a “step in the right direction”, however, we do not believe the proposed disclosures go far enough (i.e., we believe the most critical changes are those that affect measurement and not just disclosure). Notwithstanding the preceding, in evaluating the Proposed FSP from the perspective of whether it represents an improvement of existing disclosures, we believe it may represent an improvement, however, all significant interpretive issues must first be resolved before a full evaluation can be completed. In terms of enhancing the comparability of financial statements under US GAAP and IFRS; subject to resolution of the aforementioned interpretive issues, we believe the Proposed FSP appears to represent a marginal improvement as we believe IFRS provide more opportunities for preparers to adopt an amortized cost measurement basis for financial assets in situations where markets are inactive, illiquid, or otherwise not orderly; as a result the disclosures contained in the Proposed FSP may provide information to better facilitate a reconciliation between US GAAP and IFRS.

- 2. Do you agree the proposed disclosures should not include financial assets measured at fair value in the statement of financial position with changes in fair value recognized through earnings? If not, would you propose including such financial assets within the scope of this proposed FSP? Should financial assets measured at the lower of cost or fair value be included within the scope of this proposed FSP? Why or why not?**

RESPONSE: We believe the proposed disclosures should not exclude financial assets measured at fair value in the statement of financial position with changes in fair value recognized in earnings. More specifically, as the fundamental objective of the Proposed FSP is to provide a disclosure based reconciliation of the various measurement and impairment methods for the universe of economically equivalent financial assets we see no reason to exempt any measurement methods as this would only render the reconciliation incomplete.

- 3. Do you believe requiring disclosures of pro forma income from continuing operations (before taxes) for financial assets within the scope of this proposed FSP as if those financial assets were carried (a) at fair value with changes in fair value recognized through earnings and (b) at the incurred loss amount with changes recognized through earnings would improve financial reporting? Why or why not? Should disclosure requirements described in the preceding sentence be required for net income and shareholders' equity? Why or why not?**

RESPONSE: Again, we believe the information in the Proposed FSP represents a step in the right direction, but does not go far enough. More specifically, we continue to believe the most appropriate measurement basis for financial assets associated with markets that are no longer active, liquid, or orderly is amortized cost (or a variant thereof) so long as the reporting entity has the intent and ability to hold the security for the foreseeable future. In addition, we would support applying guidance to determine the presence of other-than-temporary impairment (“OTTI”) consistent with that contained in SFAS 114 and SFAS 5, as applicable.

Separately, while we believe the concept of the required disclosures concerning pro-forma net income and shareholders' equity are a step in the right direction inasmuch as they attempt to present a more economically relevant representation of the performance and financial

position of the reporting entity, however, given the existence of significant interpretive issues, we do not believe the Proposed FSP is implementable as of December 31, 2008. The following items represent some of the more significant of the unresolved interpretive and operational issues concerning the Proposed FSP:

Interpretive Issues

- The development of “incurred losses” for available-for-sale (“AFS”) and EITF 99-20 debt securities for which the reporting entity previously recognized a credit driven OTTI. The issue is what effective interest rate to use (i.e., the original or adjusted) in the incurred loss calculation in the following situations:
 - For AFS securities; should the effective interest rate be adjusted for any OTTI recognized;
 - For EITF 99-20 securities; should the effective interest rate be adjusted for changes in expected cash flows;
 - For asset-backed securities; should the effective interest rate be adjusted for principal repayments;
- The development of incurred loss estimates for AFS debt securities for which the reporting entity has recognized an OTTI due to its inability to assert a positive intent and ability to hold the security until recovery. The issue is the measurement basis for written-down securities for which a reporting entity does not have the intent to hold for the foreseeable future.

Operational Issues

- The development of incurred loss estimates for certain AFS debt securities such as Investment Grade Corporates (“IGC”). The issue here is that reporting entities would not have typically developed anticipated cash flow data for impaired IGC’s as the historical practice is to write those securities down to fair value once an OTTI is triggered.
- The accounting for premiums and discounts on a retrospective basis back to the earliest date comparative information would need to be developed and presented. The issue is that many reporting entities would face significant operational challenges to appropriately reflect the impacts of amortization and accretion of premiums and discounts on a comparative basis between the current carrying value (assuming that is AFS) and an incurred loss based measurement.
- The accounting for deferred acquisition costs (“DAC”) as described in Question 4.

4. Would including separate reconciliations of reported income from continuing operations (before taxes) to the proposed pro forma adjusted income from continuing operations (before taxes) under both a fair value basis and an incurred loss basis for financial assets within the scope of this proposed FSP be useful? Why or why not?

RESPONSE: Again, we believe that while the proposed disclosures represent a step in the right direction, they do not go far enough as they do not address the measurement of financial assets in markets that are no longer active, liquid, or orderly; the very financial instruments at the epicenter of the worldwide credit crisis for which additional accounting and financial reporting guidance has been sought.

As it relates to including separate reconciliations of reported income from continuing operations (before taxes) to the proposed pro forma adjusted income from continuing operations (before taxes) under both a fair value basis and incurred loss basis, we support the concept of their usefulness, as we believe the incurred loss basis represents a more economically accurate (and relevant) presentation of the performance and financial position of the reporting entity than does fair value in situations where financial assets exist in markets that are inactive, illiquid, or otherwise not orderly, however, as noted throughout this

response we believe the Proposed FSP is not implementable in its current state given the significant unresolved interpretive issues and operational issues that exist.

One area that involves both interpretive as well as operational issues is the treatment of DAC in the pro-forma calculations required by the Proposed FSP. More specifically, the amortization of DAC is dependent on gross profits, which include realized capital losses. Accordingly, the calculation of pro-forma adjusted income may involve a number of considerations that would make it challenging to achieve the proposed implementation date.

5. **Do you believe that the provisions of this proposed FSP should be effective for interim and annual reporting periods ending after December 15, 2008? Why or why not? Do you believe that the disclosures in this proposed FSP should be provided on a comparative basis for subsequent periods after initial application of the proposed FSP? Why or why not?**

RESPONSE: We do not believe the provisions of the proposed FSP should be effective for interim and annual reporting periods ending after December 15, 2008 given the significant unresolved interpretive issues that exist.

Other concerns are that (a) the scope of the guidance appears too broad as it applies to all AFS securities (in contrast, we believe it should be targeted to financial assets associated with markets that are inactive, illiquid, or otherwise not orderly) and (b) the fact that the Proposed FSP targets disclosure and not the fundamental measurement issues we believe exist. Our preference is to address the measurement of financial assets associated with markets that are no longer active, liquid, and orderly; only a fraction of the AFS population within the scope of the Proposed FSP.

As described above, there are a number of significant unresolved interpretive issues that must be satisfactorily addressed before the Proposed FSP can be implemented. In addition, as a result of the expansive scope of the Proposed FSP, we foresee a number of operational challenges which, given the information would be required to be presented in the SFAS 107 footnote (and would therefore be subject to the financial statement audit and SOX), would elevate reporting entity's exposure to the outcome of those audits.

6. **Are all of the disclosures in this proposed FSP operational based on the proposed effective date? Why or why not? Please be specific in your response.**

RESPONSE: We do not believe incurred loss information currently exists for all AFS securities. Accordingly, disclosure of all AFS securities as if their impairments were measured on an incurred loss basis would require the creation of information that did not previously exist. In this sense, a significant element of the proposal would not be currently operational. Our suggestion would be to reduce the scope from "all AFS securities" to only financial assets associated with markets that are inactive, illiquid, or otherwise not orderly.