



December 8, 2008

Financial Accounting Standards Board (FASB)
Attn: Technical Director, File Reference No. 1640-100
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

Re: Comments on Proposed Statement of Financial Accounting Standards: Subsequent Events

The Financial Reporting Committee of the American Academy of Actuaries¹ offers the following comments on the FASB exposure draft on Subsequent Events.

For life and health insurance, actuaries are typically responsible for setting two of the major liabilities on an insurer's balance sheet: the reserve for future policy benefits and the liability for incurred but unpaid claims. In addition, for GAAP reporting, actuaries also typically calculate the unamortized DAC asset for life insurance. Casualty actuaries opine on the most material liability estimate for property and casualty insurers; the reserve for unpaid claims and claim expense. All of these items incorporate estimates regarding future events and the timing of those events. As time passes, the estimates are replaced by actual experience. Of course, actual experience will nearly always differ from estimates to some extent, but typically not in a material manner.

With this framework in mind, we have several specific comments on the exposure draft:

1. We believe that the discussion in Paragraphs 8 and 9 with regard to estimated liabilities may cause unnecessary confusion with regard to claim liability estimates, and therefore should be clarified.

FAS 60, paragraph 18 (and also GAAP Codification Paragraph 944-40-35-1) states:

"Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims shall be recognized in income of the period in which the estimates are changed or payments are made."

We interpret this as a conflict with the wording in paragraph 8 and 9 of the exposure draft, and per the exposure draft (paragraphs 2 and 3) the exposure draft would therefore not apply to insurance claim liability estimates nor changes in those estimates. Yet, neither Appendix A (paragraph A5), nor Appendix B, points out this conflict. This could lead to the inappropriate application of the final Subsequent Events standard to claim liability estimates.

¹ The American Academy of Actuaries is a 16,000-member professional association whose mission is to assist public policymakers by providing objective expertise and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

We recommend that this potential misinterpretation be addressed by specifically citing both FAS 60 (paragraph 18) and GAAP Codification Paragraph 944-40-35-1. A reference to FAS 60, paragraph 18 could be added to paragraph A5 of the proposed standard, and a reference to GAAP Codification Paragraph 944-40-35-1 could be added to Appendix B in some fashion

2. The comment following paragraph 16, "The provisions of this Statement need not be applied to immaterial items" leaves open the question of what an "immaterial item" is. We recognize that the above-quoted sentence is standard wording; and the following thoughts are offered to assure there is no unintended interpretation. In many circumstances, an actuarial liability will be a material item on a company's balance sheet, but the inter-period change in that liability may not be a material item on the company's income statement. It would be unfortunate and inappropriate if a company was required to apply the recognition guidance of paragraph 8 to revise a liability estimate in a situation where the impact on the income statement of doing so was immaterial, on the grounds that the balance sheet liability involved was itself a "material item".

Thank you for the opportunity to comment. Should you have any questions or need further information on our comments, please feel free to contact us through Tina Getachew at getachew@actuary.org or at (202) 223-8196.

Sincerely,

Henry Siegel

Henry Stagel

Chairperson, Financial Reporting Committee

American Academy of Actuaries