Group of North American Insurance Enterprises

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1.September.2004

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Mr. Lawrence W. Smith
Chairman of the Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

RE: Emerging Issues Task Force Issue No. 03-1 – The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-1).

Messrs. Herz and Smith,

The Chief Financial Officers of eleven leading insurance companies including life insurers, property and casualty insurers, and reinsurers formed the Group of North American Insurance Enterprises (GNAIE) in 2003. 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. The goal of GNAIE is to influence international accounting standards to ensure that they result in high quality accounting standards for insurance companies and, to that end, to increase communication between insurers doing business in North America and the International Accounting Standards Board (IASB) and the United States Financial Accounting Standards Board (FASB). GNAIE works to meet its goals through modeling of proposed accounting standards, analysis, comment, and coordination with various end users of financial reports.

The GNAIE membership, like many other reporting entities, closely followed the work of the Emerging Issues Task Force on EITF 03-1. We became concerned when we noted the following sentence which had been added to paragraphs 12 and 16 of the final Issue Summary: *although not presumptive, a pattern of selling investments prior to the forecasted recovery of fair value may call into question the investor's intent*. The basis for our concern was that, without supplemental implementation guidance, if the "pattern of selling" statement is interpreted in the context of held-to-maturity securities (which in our view would be inappropriate), it could result in reporting entities having to "quasi permanently" hold impaired, but not other than temporarily impaired, available-for-sale (AFS) securities until their eventual recovery or maturity regardless of changes in facts and circumstances. We believe this would be fundamentally inconsistent with the spirit and intent of the AFS category which was specifically designed for securities whose entire holding period is uncertain.

We are confident that the FASB and EITF did not intend to require reporting entities to designate a "quasi permanent" intent to hold impaired AFS investment securities whose impairment is not recognized in earnings at the end of any reporting period until such time as they fully recover or mature. However, the lack of supplemental interpretive implementation guidance has led to differing interpretations amongst both reporting entities and the Big Four public accounting firms of critical aspects of EITF 03-1 such as the following:

- Is the "intent" to hold AFS securities in an unrealized loss position at any reporting date for a reasonable period of time sufficient for a forecasted recovery of fair value up to (or beyond) the cost of the investment a "quasi permanent" designation or may it change in the future consistent with the rationale for selling available-for-sale securities as set forth in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115)?
- What constitutes a "pattern of selling" and what are the accounting and financial reporting consequences?
- If reporting entities are in fact required to designate a "quasi permanent" (i.e. only permitted to sell consistent with the circumstances in paragraph 8 of SFAS 115) intent to hold impaired AFS securities until they fully recover or mature (despite the contradiction to what we thought was the intent of the abstract), how should securities written-down solely to permit future sales outside the circumstances of paragraph 8 of SFAS 115 be accounted for? That is, if interest and/or credit related impairments are considered temporary but are nonetheless recognized by the reporting entity to avoid tainting the AFS investment portfolio how should income be recognized AND classified pursuant to the guidance in Statement of Position 03-3, *Accounting for Loans or Certain Debt Securities Acquired in a Transfer*?

The above list provides a sense of the magnitude and nature of the implementation issues currently facing insurance reporting entities. Moreover, given the potential for inconsistent interpretations amongst both reporting entities and the Big Four public accounting firms on the above and other related issues we are concerned about the risks of inconsistent application across reporting entities and the potential negative consequences to both reporting entities and the financial markets. Accordingly, we believe it critical that the FASB and/or EITF consider one of the following action steps:

- Delay the implementation date of EITF 03-1 (or temporarily suspend the Board's previous ratification) until such time as supplemental interpretive principles-based implementation guidance can be developed and disseminated. Our expectation would be that the development of any supplemental implementation guidance would be subject to the FASB's normal "due process" procedures.
- Develop and issue supplemental interpretive principles-based implementation guidance in a manner that will allow reporting entities to timely incorporate the guidance into their

investment management processes and prepare and timely file their third quarter financial statements as of September 30, 2004. Again, our expectation would be that the development of any supplemental implementation guidance would be subject to the FASB's normal "due process" procedures.

We appreciate your consideration of this matter. Please call me at 212.480.0808 if you would like to further discuss these or related issues.

Very Truly Yours,

Douglas Wm. Barnert

Douglas Wm. Barnert
Executive Director
The Group of North American Insurance Enterprises