



April 10, 2006

Technical Director – File Reference 1250-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Exposure Draft on the Proposed Statement of Financial Accounting Standards, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115

Dear Technical Director:

The Group of North American Insurance Enterprises (GNAIE) consists of Chief Financial Officers of leading insurance companies including life insurers, property and casualty 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. The goals of GNAIE are 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 and the US Financial Accounting Standards Board. GNAIE works to meet its goals through modeling of proposed accounting standards, analysis, comment, and coordination with various end users of financial reports.

GNAIE appreciates the opportunity to comment on the Exposure Draft on the Proposed Statement of Financial Accounting Standards, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (“ED”).

This letter represents the views of the GNAIE. With respect to the Scope issue, the language presented for exposure raised many difficult questions for our members, not the least of which was the lack of convergence with international accounting standards. As you know, IAS 39 scopes out insurance liabilities and thus the fair value option within IAS 39 is not available for insurers to utilize for insurance contracts under International Accounting Standards. Individual members of GNAIE may have reached different conclusions as a result of a need to solve accounting mismatch issues depending on their specific books of business both in the United States and internationally. We encourage the FASB to consider all these views in developing a resolution to what is clearly a difficult issue.

Our response to the scope issue as well as our other concerns are noted below.

To influence the development of international accounting standards to ensure that they result in robust, high quality standards for insurance enterprises

40 Exchange Place, Suite 1707
New York NY 10005
212-480-0808 doug.barnert@gnaie.net

Scope

We understand and appreciate the Board’s objective with this ED to permit companies to mitigate non-economic volatility through an accounting offset without having to apply complex hedge accounting provisions. However, GNAIE still has concerns in applying such measures to insurance liabilities at this point until an adequate measure has been established. While we understand that the fair value measurement project is still being deliberated and is expected to be complete by the second quarter of 2006, there are still many open questions regarding the principles used to fair value insurance liabilities. Such issues include but are not limited to: the use of risk margins, incorporation of changes in creditworthiness, the selection of discount rates, individual vs. portfolio basis, use of deposit floors and unbundling. We fear that without a sound basis of measurement, a fair value election may cause companies to prematurely value certain insurance liabilities and thus, may cause restatements in the future if further guidance on the measurement standard is issued after the adoption of this proposed standard.

A decision to scope out insurance contracts in the proposed standard would be consistent with the delay of other areas of accounting literature that has been either scoped out or reconsidered until further research has been complete. For instance, financial liabilities under lease contracts and employers’ and plans’ financial obligations for pension benefits has been scoped out of this exposure draft because the Board feels there needs to be “a comprehensive reconsideration of the accounting”. Also, the fair value option project has a Phase 2 partly because there is still needs to be further consideration of fair value measurements for nonfinancial assets and liabilities. In addition, insurance contracts were scoped out of SFAS 107 due to the “definitional and valuation difficulties present in those contracts”. Such issues still exist today. IAS 39 continues to scope out general insurance contracts from the fair value option because the accounting for insurance contracts is still in debate in Phase II of the Insurance Contracts Project.

While we understand the value in having a fair value option, we feel that it is generally premature to include insurance liabilities when there is still lack of guidance on how it should be applied particularly given that there is no true observable market and such measurements would be predicated on hypothetical transactions in hypothetical markets. As such we will continue to work with the FASB and IASB to help resolve such measurement issues so that there will be a sound, consistent and comprehensive valuation framework at the time of adoption.

Change in Creditworthiness

The ability to incorporate changes in creditworthiness is one of many important factors that need to be resolved prior to the implementing a measurement basis for insurance contracts. GNAIE opposes the use of the effect of the changes in the creditworthiness in reporting liabilities in any situation. To have a standard where the deterioration in the creditworthiness of a Company would generate current period gains in the income statement due to the liabilities being reduced as a result of the lower credit rating is not relevant, prudent, or representationally faithful. We are in agreement with the views noted by a Board member referred to in paragraph A26 of the ED that “users do not expect revaluation of an entity’s debt securities to recognize deterioration in the entity’s own creditworthiness and to be a component of operating performance” and “Recognizing that effect could be misleading to users and potentially misrepresent or conceal operating performance issues.” The gain in most instances will not be realizable unless there is a bankruptcy situation or a significant financial deterioration where the debt holders would be willing to accept less from the issuer in satisfaction of the debt.

Also, using credit standing of the insurance company would not take into consideration the priority of insurance liabilities as well as the insurance regulatory environment and mechanisms in most jurisdictions that provide a security to policyholders that are greater than that of bondholders or other debt holders. Accordingly, the credit spread on a company’s debt would not be an appropriate indicator of the credit risk associated with insurance liabilities. As such, we feel the risk to the policyholder is irrelevant and not meaningful for the purposes of the insurer’s financial statements.

Effective Date and Transition

Based on the ED, the standard would be effective the beginning of each reporting entity’s first fiscal year that begins after December 15, 2006, with earlier adoption encouraged, but no earlier than the adoption of the Fair Value Measurement Standard. Whether or not the final standard would include insurance contracts, we would still strongly recommend that the effective date of the adoption be delayed by one year. The reason is to give companies ample time to assess their existing asset and liability portfolios so that they are ready when it is time to initially adopt the final standard. The transition allows, only at initial adoption, a fair value election for assets and liabilities existing at the effective date. After the adoption, the only time an election can occur is when the financial asset or liability is initially recognized or upon an event that gives rise to a new-basis of accounting. Also, once it has been elected it is irrevocable. Therefore, some companies will need time to evaluate their current balance sheet to determine which contracts to fair value and then to determine an effective fair value measurement basis for those contracts elected at the time of adoption. Postponing the effective date should not be an issue since companies will always have the option to adopt early.



Conclusion

We believe that more guidance is needed before insurance contracts are included in a fair value standard. If companies were to fair value insurance contracts there would not only be comparability issues with companies that inconsistently use the fair value option, but there will be significant inconsistencies in the application of the fair value measurement of insurance liabilities for those companies that do elect the option as there is today in cases where there are business combinations of insurance enterprises. Also, since many of the assumptions and methodologies used to value insurance contracts are so complex and subjective, it may result in financial statements that users cannot rely on.

If you have any questions regarding the contents of this letter, please contact us at anytime to discuss our comments.

Respectfully submitted,

A handwritten signature in cursive script that reads "Douglas Wm. Barnert".

Douglas Wm. Barnert
Executive Director

DWB:PS:mtf