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INSURERS SAY FAIR VALUE ACCOUNTING MEASUREMENTS WERE “POWERFUL ACCELERANT” TO WORLDWIDE CREDIT CRISIS

Letter to FASB Advances Proposed Solution to Accounting Issue

NEW YORK Dec. 31 -- The application of fair value accounting measurements to an inactive, illiquid, and disorderly market for structured credit products helped fuel the worldwide credit crisis, an organization of major insurers and reinsurers told the U.S. Financial Accounting Standards Board (FASB).

While the proposed changes to the impairment are a good first step, and the proposed disclosures will enable insurers to better present the economic valuation of their investments, more needs to be done to enable insurers to fairly present their financial statements for year-end 2008.

In its comment letter to the FASB on the proposed Financial Statement Presentation EITF 99-20-a, the Group of North American Insurance Enterprises (GNAIE), said that while the organization does not believe that fair value measurements caused the global credit crisis, “unreliable, and non-transparent fair value measurements served as a powerful accelerant.

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

Fair value accounting rules require assets be valued at their current market price or “marked to market,” rather than the price paid for them. Under the financial bailout legislation, the SEC is required to study the effects of fair value accounting measurements and report to Congress by the end of the year.

The December 4 letter to Robert Herz, FASB Chairman from Kevin Spataro, chairman of GNAIE’s accounting convergence committee said that “*Fair Value Measurements* (SFAS Statement No. 157) was pushed beyond its limitations and does not produce reliable measurements representative of fair value (in the traditional sense of a willing buyer/seller) when markets are inactive illiquid and disorderly.”

GNAIE, an insurance trade organization whose members include the largest global providers of life insurance, property/casualty insurance and reinsurance, also advanced what it considers to be a practical and easily implemented solution to the issues created by SFAS 157 using existing mechanisms within U.S. GAAP.

An example of the fundamental shortcomings of SFAS 157 involves situations where the condition of a market migrates from active, liquid and orderly to inactive, illiquid and disorderly, resulting in the unavailability of sufficient data to support fair value measurements either on a direct or indirect basis, according to GNAIE.

“This results in measurements that we believe are more representative of liquidation values than fair value,” GNAIE said.

The letter observed that these values are fundamentally incompatible with financial statements presented on a going-concern basis, and with a reporting entity’s intent and ability to hold such securities for the foreseeable future; which is typically the case for insurance companies.

GNAIE believes the severity of the current situation is largely attributable to SFAS 157's replacement of the basic notion of a "willing buyer and seller in an arm's length transaction other than in a forced or liquidation sale" with the "price received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date."

GNAIE's proposed solution is to migrate from a fair value measurement under SFAS 157 to an amortized cost/incurred loss measurement paradigm applied to identical loans outside the structured credit products that are not held in securitized or certificated form, but only in situations where markets are not active, liquid or orderly.

In its letter to the FASB, GNAIE called on regulators and standard setters to work together to identify and implement sound solutions that will be effective as of December 31, 2008.

"We believe that the GNAIE proposal is one that is practical, easily, implementable -
- as most of the necessary accounting and financial reporting infrastructure already exists -
- aligns with the direction of the International Accounting Standards Board (IASB) appears to be headed on this issue, and is also conceptually sound," the letter said.

The goal of GNAIE is to influence international accounting standards to ensure that they result in high quality accounting and solvency standards for insurance companies and, to that end, to increase communications between insurers doing business in North America and international regulators and standard setters. GNAIE works to meet its goals through modeling of proposed accounting standards, analysis, comment and coordination with various end uses of financial reports.

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