



April 2, 2009

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Chairmen
IASB/FASB Joint Financial Crisis Advisory Group
c/o Financial Accounting Services Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: FCAG Written Submissions from Constituents

Gentlemen:

The Group of North American Insurance Enterprises (GNAIE) consists of leading insurance companies including life insurers, non-life insurers, and reinsurers. GNAIE members include companies who are among the largest global providers of insurance and substantial multi-national corporations. We are writing today to provide input to the IASB/FASB Financial Crisis Advisory Group (FCAG) as it continues its discussions concerning the recent events in world financial markets. Please find below our responses to the questions in the invitation to comment.

1. From your perspective, where has general purpose financial reporting helped identify issues of concern during the financial crisis? Where has it not helped, or even possibly created unnecessary concerns? Please be as specific as possible in your answers.

In this crisis the requirement to apply “fair value” measurements and fair value based impairments to debt instruments in circumstances where the markets for those instruments became inactive, illiquid and disorderly has distorted the balance sheet results of entities who otherwise are receiving the promised cash-flow and have no intent or compulsion to sell. The resulting degradation of the balance sheets of financial services companies has generated pro-cyclical effects that have depressed asset prices not only for instruments affected by the subprime mortgage and housing crisis, but also many, many related securities that otherwise would have retained their value. The requirement of financial institutions to maintain capital levels and in some cases post new collateral has dried up credit liquidity in general.

The argument has been made that FAS 157 does not require the use of market value from “distressed sales” as inputs to level 3 valuations. The guidance up to now, however, was either unclear as to the means of determining if a given transaction was a distressed sale or unrealistic as to the information a holder would have as to the circumstances of a transaction between two unrelated parties. The recently released FSP 157-e has the potential for alleviating these difficulties, if the wording is amended so that it operates in the manner that has been described.

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The relevance of a price from a transaction between third parties to the holding value of an asset on the books of the reporting entity is dependant on the assumption that the price is derived from both the buyer and the seller acting on all reasonably available information and in their best, highest interest. You cannot make that assumption in the case of an illiquid, inactive, disorderly market due to the potential for economic disconnects between the holder and the prospective buyer and uncertainty regarding economic motivations that are unrelated to the value of the instrument.

Asset valuations must be consistent with management's intent, otherwise the financial statements are unlikely to be consistent with expectations of future cash flows, and may reflect the liquidation value of the entity as opposed to the going concern value. A price derived from an active, orderly, liquid market should be broadly consistent with management intent, because it reflects both the buyer and the seller's objective view of the utility and risk of the balance sheet item. Prices from inactive, illiquid, or disorderly markets fail that assumption for securities that management will hold, because the price in a disorderly market will likely be a function of intents and circumstances unrelated to the present value of the probable future cash flow. It is either impossible or unreliable to attempt to separate those extraneous price drivers from a distressed price to derive a hypothetical exit price.

By the same token an impairment model that requires distressed securities to be written down to a value derived from an inactive, illiquid, disorderly market makes little sense. Sharp drops in market value are frequently the result of some degradation in credit worthiness that would rationally trigger an impairment in book value. However, the extraneous price drivers of concurrent transactions may force the price much lower than a rational estimate of the decline in the probability of payment. The severity and duration of the current market disruptions related to declines in credit liquidity and pro-cyclical pressures render interpretations of "other than temporary" difficult at best. This problem is compounded by the fact that the write-downs are unrecoverable.

Again, the recently released FAS 115-a/FAS 124-a/EITF 99-20-b potentially alleviates many of these difficulties. The separation of the write-down, into credit impairment through profit and loss and residual through OCI, properly acknowledges the uncertainty of whether the entire fair value based impairment is relevant to the value of the holder. We remain somewhat concerned with the ability of entities to determine the credit loss to the satisfaction of auditors, but believe this proposal is going in the right direction. We would also like to encourage consideration of proposals to allow reversal of permanent write-downs

3. Some FCAG members have indicated that they believe issues surrounding accounting for off-balance items such as securitizations and other structured entities have been far more contributory to the financial crisis than issues surrounding fair value (including mark-to-market) accounting. Do you agree, and how can we best improve IFRS and US GAAP in that area?

No, we do not agree. While market pressures may have revealed weaknesses in the guidance for consolidation and derecognition, there is no basis to conclude that repairing those weaknesses would have magically fixed the issues surrounding fair value. In addition, the issues surrounding off-balance sheet items can be understood as problems with the valuation of risk.

What is important to users is a fair picture of the obligations of the company. The problem is not whether a particular asset or liability appears on the balance sheet, but whether the risk is captured. Determining the materiality or value of risk in complex securitizations or other structures requires

methods beyond simple theories of the market's ability to monetize the risk of liabilities. Some risks (like reputation risk) may be beyond difficult.

4. Most constituents agree that the current mixed attributes model for accounting and reporting of financial instruments under IFRS and US GAAP is overly complex and otherwise suboptimal. Some constituents (mainly investors) support reporting all financial instruments at fair value. Others support a refined mixed attributes model. Which approach do you support and why? If you support a refined mixed attributes model, what should that look like, and why, and do you view that as an interim step toward full fair value or as an end goal? Whichever approach you support, what improvements, if any, to fair value accounting do you believe are essential prerequisites to your end goal?

Investors want not only an objective value, but also one that is consistent with use of the assets and liabilities being analyzed.

We support a valuation system that has the flexibility to reflect how the balance sheet item is being used. We support the three categories present today in US GAAP, but we also encourage the discussion occurring as part of the Financial Instruments: Improvements to Recognition and Measurement Project. The three attributes discussed as candidates at the March 24 Joint Meeting are an appropriate starting point.

HTM is a critical category and is in need of a serious overhaul. The requirement that a *security* be permanently designated as HTM does not reflect the ability or need of management to manage a *portfolio* of securities held for their ultimate cash-flow. Management should be permitted to move or sell HTM securities in reaction to changes in conditions, as long as it is clear that the basic dynamic between the HTM portfolio and its intended use are maintained.

We support simplification and convergence of the impairment rules, but we do not support the use of an impairment test that requires write-down all the way to fair-value when the market for the instrument is illiquid, inactive and disorderly. The separation proposal in FAS 115-a/FAS 124-a/EITF 99-20-b is potentially a solution.

5. What criteria should accounting standard-setters consider in balancing the need for resolving an 'emergency issue' on a timely basis and the need for active engagement from constituents through due process to help ensure high quality standards that are broadly accepted?

We believe the Boards should establish and maintain minimum due process procedures to allow for full review of the standards. While we acknowledge the requirements of Section 19 (b) of the Securities Act of 1933, the boards should consciously take steps to address emerging crises, seek and fully consider feedback from affected interested parties, and focus on impact assessments and field testing to ensure that issued and proposed standards don't have unanticipated negative consequences.

It became clear that there was a global financial crisis in late 2007. Had there been substantive consideration of the appropriateness of fair value accounting in the presence of illiquid, inactive, disorderly markets and satisfactory action by the FASB or IASB in the 12 months that preceded the EU demands, it is unlikely there would have been an "emergency issue".

That said, we agree with the FCAG panelist who said that an emergency is the time to open the doors as wide as they go, rather than slam them shut. Outreach and engagement in situations with limited time for comments should be greater, not less. These situations, when they arise, are times when the boards



must also engage in thorough and far-reaching follow-up to ensure that “emergency” changes are having their intended effect.

6. Are there financial crisis-related issues that the IASB or the FASB have indicated they will be addressing that you believe are better addressed in combination with, or alternatively by, other organizations? If so, which issues and why, and which organizations?

No.

7. Is there any other input that you'd like to convey to the FCAG?

Please refer to our responses to the questions in the Agenda Paper for the second meeting, which we sent to FCAG staff prior to that meeting (attached).

The discussions and debate of the Group have illuminated the difficulties in achieving a single, clear, theoretical solution. Although perhaps unsatisfactory, we feel it is important that the conclusions reached reflect the disagreements. We thank the FCAG for the opportunity to comment and look forward to the results of the Group's work.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry de St. Paer". The signature is written in a cursive, flowing style.

Jerry de St. Paer
Executive Chairman
Group of North American Insurance Enterprises