



April 1, 2009

Mr. Russell Golden  
Technical Director  
Financial Accounting Services Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Re: File Reference Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b

Dear Mr. Golden,

The Group of North American Insurance Enterprises (“GNAIE”)<sup>1</sup> appreciates the opportunity to offer comments and observations on the Financial Accounting Standards Board’s (“FASB”) Proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments* (“Proposed FSP”).

GNAIE supports the FASB’s efforts to make the intent requirements inherent in other-than-temporary impairment (“OTTI”) determinations more operational and to improve the presentation of OTTI’s by aligning the presentation of impairments with intent considerations. More specifically, in situations where there is no intent to sell an impaired security, and it is more likely than not the reporting entity will not sell the security before recovery of its cost basis, any OTTI recognized in earnings would be limited to anticipated credit losses, with the remainder classified in other comprehensive income (“OCI”). We believe the proposed modifications to the intent requirements will result in more consistent application and will make the process of determining OTTI by reporting entities more efficient. In addition, we believe the separation of impairments between anticipated credit losses and all other sources will provide more transparency to financial statement users as to expected losses and the key drivers of impairment losses.

Notwithstanding the preceding, as insurance companies’ capital is evaluated including both losses recognized in earnings and those losses recognized in OCI, we do not believe this Proposed FSP alone will provide a more transparent view of the true economic condition of insurance companies. As a result, GNAIE is very supportive of the proposed FSP being issued in combination with the proposed

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<sup>1</sup> GNAIE is a trade organization comprised of 19 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, and all are major participants in the US markets.

Jerry M. de St. Paer  
Executive Chair

Douglas Wm. Barnert  
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FSP 157-e, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed*. GNAIE has provided comments on proposed FSP 157-e in a separate comment letter.

Responses to specific questions set forth in the Proposed FSP are provided in the attached Appendix. If the Board or Staff desires further discussion of any points contained in this cover letter or the attached Appendix we would be happy to make ourselves available.

Respectfully,

A handwritten signature in black ink that reads "Kevin Spataro". The signature is written in a cursive, slightly slanted style.

Kevin Spataro  
Chairman, Accounting Convergence Committee  
Group of North American Insurance Enterprises, Inc.

KS:DB:c11

## Appendix

The FASB requested that constituents comment on various questions posed by the Board. GNAIE responses are as follows:

**Question 1: The proposed FSP would require entities to separate an OTTI impairment of a debt security into two components when management asserts that it does not have the intent to sell the security and it is not more likely than not that it will have to sell the security before recovery of its cost basis. Does this separation provide decision-useful information?**

- When a reporting entity asserts that it does not have the intent to sell an impaired security and it is not more likely than not that it will *be required* to sell the security before its recovery, yet based on other impairment indicators determines that the security is OTTI, decomposing the impairment between the loss that is attributable to an expected decrease in contractual cash flows versus the loss attributable to other factors would be very useful information. We believe the distinction brings more transparency to the actual expected economic losses a reporting entity expects to incur on an investment to be held for the foreseeable future. The distinction is especially important for insurance companies that, ignoring periodic repositioning in response to market events and circumstances, utilize asset-liability management frameworks consistent with the nature of their business which typically results in assets being retained until they recover in value. Stated differently, temporary fluctuations in value attributable to factors other than credit, such as market illiquidity, are typically given less weight by an insurance company that purchases assets to correspond with the attributes of its insurance liabilities. Accordingly, reflecting losses in net income that are attributable to the current illiquidity profile of the market, when the reporting entity does not intend to sell a specific investment, overstates the losses a reporting entity actually expects to recognize.
- We also believe limiting loss recognition in earnings to actual expected credit losses will provide more consistency in loss reporting for certain securities, such as mortgage-backed securities, that can be held in both certificated and non-certificated form.

**Question 2: The proposed FSP would require the credit component of an OTTI of a debt security be determined by the reporting entity using its best estimate of the amount of impairment related to increases in credit risk. One way of estimating that amount is to consider the measurement methodology in FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan. EITF 99-20, paragraph 12 (b) would be used for beneficial interests in securitized financial assets that are in scope of Issue 99-20. Do you believe this guidance is clear and operational? Do you agree with the requirement to recognize the credit component of an OTTI in income and the remaining portion in other comprehensive income (“OCI”)? Under what circumstances should the remaining portion be recognized in earnings?**

- We believe the guidance in SFAS 114 and EITF 99-20 is clear and operational. Moreover, the two approaches provide appropriate methods a reporting entity could employ to determine the credit loss component of an OTTI. However, in the Final FSP, we recommend the FASB clarify the reference to SFAS 114, paragraphs 12-16 in that paragraph 16 refers to the use of a valuation allowance that can be reversed; we do not believe there was an intent to follow this aspect of SFAS 114. The FASB should also consider providing a practical expedient to

determine the credit loss component for those companies that have lower levels of credit impairments.

- As previously mentioned, GNAIE supports providing more transparency to investors through the decomposition of impairments between the losses attributable to credit versus those attributable to factors other than credit. We also agree that, when a reporting entity does not have the intent to sell an impaired security, the portion of an impairment attributable to credit losses should be reported in earnings as it is the economic loss expected to be realized on the security. The remaining component of the impairment attributable to factors other than credit losses is considered a temporary impairment. Reporting temporary impairments in OCI is consistent with other temporary fluctuations in value currently reported in OCI for available-for-sale (“AFS”) securities. Moreover, it is not until those fluctuations are determined to be OTTI, through additional credit impairment or through a change in intent assertion, that they would be recognized in earnings.

**Question 3: The proposed FSP modifies the current indicator for an OTTI to be that management must assert that it does not have the intent to sell the security and it is not more likely than not that it will have to sell the security before its recovery. Does this modification make this aspect of the OTTI assessment more operational? Should this modification apply to both debt and equity securities? Will this change result in a significant change to the assessment of whether an equity security is OTTI?**

- The proposed modification to the OTTI trigger is intended to make it more operational and would apply to debt and equity securities. We believe it will ease the burden currently placed on reporting entities to determine if, based on current facts and circumstances, the reporting entity intends to hold an impaired security to full recovery when both the timing and realization of full recovery is difficult to anticipate. We believe forming an “intent to sell” or “determining the likelihood of selling an impaired security before full recovery” are criteria that are more operational than the existing criteria. Notwithstanding the preceding, to prevent inconsistent application of the criteria, we would recommend the addition of specific language to clarify that a “reporting entity’s assertions may change in the future if new facts and circumstances emerge.”
- We identified a number of areas within the Proposed FSP where the terminology related to the second trigger for intent is inconsistently referenced. To address the preceding, we recommend the following “...and it is more likely than not that a reporting entity *will be required to* sell the security before recovery of its cost basis.” The terminology “will be required to” has been replaced in various sections of the proposal with “will have to” or “will”. Given the FASB’s objective was to make the guidance more operational, using the terms “will be required to” will better meet that objective.

**Question 4: The proposed FSP would require that the portion of the impairment recognized in OCI for held-to-maturity securities be amortized over the remaining life of the debt security. Do you agree with this requirement?**

- Insurance companies generally do not designate portions of their portfolios as held-to-maturity (“HTM”), however, the approach described in the Proposed FSP is consistent with how we believe a HTM security would be treated if an OTTI is recognized. Once an OTTI is recognized, we believe the amount of the losses attributable to factors “other than credit” and classified in OCI should be amortized (through OCI) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows.

**Question 5: Is the proposed effective date of interim and annual periods after March 15, 2009, operational?**

- Given the timing of releasing the Final FSP and the potential implications it will have on reporting entity’s first quarter processes, GNAIE is supportive of an effective date of June 30, 2009 with early adoption encouraged.