



October 13, 2009

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

Re: File Reference No. 1710-100 - Proposed Accounting Standards Update – Improving Disclosures about Fair Value Measurements (“Proposed ASU”)

Dear Mr. Herz,

The Group of North American Insurance Enterprises (“GNAIE”)<sup>1</sup> is pleased to provide comments to the Board on its Proposed ASU designed to enhance existing disclosures about fair value measurements. We understand the Board’s objective of enhancing disclosures in situations where fair values are measured using non-market observable inputs and better aligning disclosures about fair value measurements with those required by IFRS 7, *Financial Instruments: Disclosures* (“IFRS 7”).

In aligning the requirements of the Proposed ASU with IFRS 7, we would ask the Board to first evaluate global implementation practices to determine whether global conformity exists. While we are not specifically aware of unique geographical interpretive and application differences we believe the Board should evaluate whether the interpretation and application of the Level 3 classification guidance is being interpreted consistently on a global basis by reporting entities that follow International Financial Reporting Standards (“IFRS”). Notwithstanding the results of your evaluation, we believe enhanced disclosures for Level 3 measurements should be qualitative and focus on the potential variability of reasonably possible significant inputs, the causes of that variance and how the reporting entity arrived at the reported fair value.

Providing the type of enhanced disclosures described above for fair value measurements where the majority of a fair value measurement is affected by inputs that are not market observable would align the required disclosures with those provided by IFRS reporters and would limit the incremental disclosures to those that are most relevant to financial statement users. If the scope of the Proposed ASU is not revised we are concerned the information may not be comparable among companies and will provide more difficulty for financial statement users to interpret due to the quantity of instruments subjected to the requirements and the wide variations in grouping, estimating, and presenting Level 3 sensitivities.

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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

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In addition, we are concerned the recommended approach taken does not meet the objective of improving disclosures for Level 3 fair value measurements and do not believe the proposed effective dates provide constituents sufficient time to develop and execute implementation plans that will be necessary given the nature of the information involved in the Proposed ASU.

Reponses to specific questions set forth in the Proposed ASU are provided in the attached Appendix. If the Board desires a further discussion of our views please contact Doug Barnert at (212) 480-0808.

Sincerely,

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

Kevin Spataro  
Chair, GNAIE Accounting Convergence Committee

## APPENDIX

### **Issue 1: Disclosure of the effect of changes in reasonably possible, significant alternative inputs for Level 3 fair value measurements.**

GNAIE does not believe the benefits of providing the recommended sensitivity analysis outweigh the additional cost of their production. While we understand the Boards desire to align the required disclosures about fair value measurements with those provided by IFRS reporters we would ask the Board to first evaluate global interpretation and implementation practices around the designation of a fair value measurement on the fair value hierarchy. Notwithstanding the results of your evaluation, we believe enhanced disclosures for Level 3 measurements should be qualitative and focus on the potential variability of reasonably possible significant inputs, the causes of that variance and how the reporting entity arrived at the reported fair value. If the scope of the Proposed ASU is not revised we are concerned the information may not be comparable among companies and will provide more difficulty for financial statement users to interpret due to the quantity of instruments subjected to the requirements and the wide variations in grouping, estimating, and presenting Level 3 sensitivities.

In addition sensitivity testing may not work well for valuations that are dependent on multiple correlated inputs as the correlations that must be considered increase exponentially as the number of key correlated variables increases. A sensitivity test based on input correlations used in determining the actual fair value measurement would ignore the potential variations in the degree of correlation between variables. Testing the correlations for an instrument with multiple unobservable inputs requires two or more additional correlation assumptions per input and, at least theoretically, the effects of cross correlation. Correlations are not static, and the more level 3 inputs, the more complicated the calculation. The number of combinations that would have to be modeled becomes potentially endless, and the range of valuation results becomes so wide as to be potentially meaningless. Also, because the requirement is to test unobservable inputs, these sensitivities would not reflect the correlation with observable inputs, which could be misleading given their interdependencies.

#### *Asset Issues*

Although reporting entities bear the ultimate responsibility for fair value measurements provided in their financial statements, a substantial amount of the detail required to complete the proposed sensitivity analysis is not readily available. More specifically, information used to produce fair value estimates for financial assets in Level 3 of the fair value hierarchy is often obtained from independent third-party pricing vendors (“ITPV’s”) and broker quotes that provide estimates for individual CUSIP’s. As a result, to produce the required sensitivity disclosures, a typical reporting entity would need to obtain substantially more information from their ITPV’s and brokers concerning ***reasonably possible alternative ranges for each significant input and for each CUSIP***, with input factor correlation explicitly considered or attempt to replicate the information with its own systems. This information is not currently provided and it is uncertain whether or when it might be possible to obtain from ITPV’s and brokers.

Notwithstanding their source, reasonably possible alternative inputs would be aggregated following the qualitative accounting guidance provided in Topics 942 (***AICPA Audit and Accounting Guide: Banks and Savings Institutions***) and 815 (***Derivatives and Hedging***), rather than based on groupings (i.e., assets with homogenous characteristics) we believe would better inform financial statement users as to potential variability of inputs that may affect the measurement of both shareholder’s equity and net income.

In contrast, disclosing the information on the disaggregated basis required in the Proposed ASU would substantially increase the level of disclosure to the point of making the notes to financial statements

unmanageable. Moreover, to preserve the representational faithfulness of the required disclosures, we believe the disaggregation of assets and liabilities cannot be static as the disaggregated components and groupings will change with market conditions and business strategies. Accordingly, to maintain comparability, the quantitative disclosures made in prior periods would need to be updated based on changes in disaggregation. The potential need to re-run prior period information would require retention of quantitative data for all assets and liabilities and for a number of prior periods. This would be operationally burdensome and cost prohibitive.

In addition to the preceding, we believe the absence of statistical disciplines (e.g., confidence levels) will render the proposed disclosures not meaningful, not comparable and potentially misleading. We are also concerned that disclosures for weighted average inputs will not have the proper confidence level essential for achieving the Proposed ASU's disclosure objectives.

#### *Liability Issues*

For many insurance type liabilities any sensitivity testing would be based on very large numbers of reasonably possible scenarios, multiple unobservable inputs and correlations. The unobservable inputs and correlations considered may not be comparable among reporting entities, and therefore would be of limited use in competitor or industry comparisons.

All of the above noted issues become infinitely more complicated for insurance liabilities measured at fair value, due to their dependence on significant actuarial inputs in preparing reasonably possible alternatives. Many of the significant unobservable inputs include but are not limited to: own credit, implied market volatility, expected lapse rates and risk margins. Determining the impact of reasonably possible alternative inputs per the Proposed ASU could require complex valuation techniques such as probability weighted scenarios or stochastic modeling. To perform an appropriate sensitivity analysis, numerous administrative and IT systems would be required and the calculations will be costly to produce, and may not be possible within the short time period proposed in the ASU. Moreover, even if the modeling is possible, the resulting range of possible outcomes is unlikely to be useful, due to the inherent limitations described above.

We recommend the Board reconsider qualitative disclosures in MD&A to discuss how reported fair value estimates are derived and describe any significant changes in market factors that have occurred, rather than requiring quantitative disclosures that will be prohibitively costly if provided in a meaningful fashion. We also do not believe disaggregation guidance that is not responsive to changes in market conditions and how businesses are managed will be decision-useful.

Should the Board decide the sensitivity analysis is required, given the level of judgment required to complete it, we recommend it be required in the MD&A as opposed to the Notes where Sarbanes Oxley 404 is applicable.

#### **Issue 2: Reconciliation (roll forward) of fair values using significant unobservable inputs (Level 3) (separate disclosure of purchases, sales, issuances, and settlements).**

We do not see the value added by requiring entities to assume all transfers occurred at the beginning of a period, rather than maintaining the current practice of permitting the entity to choose either the beginning or the end of the period. Companies have been reporting transfers based on their individual company policies since the adoption of Statement 157. To require reporting entities to revise their existing policy would require costly systems and process changes. If the Board retains this requirement and makes this aspect of the guidance effective within an annual reporting period, a re-casting of prior quarter information on transfers starting from January 1, 2009 for all levels would be required for entities that assumed "end of period" transfers in prior periods. We consider this incremental requirement does not breach the cost-benefit threshold.



**Issue 3: Is the proposed effective date operational?**

As indicated in comments above, the sensitivity testing required by the Proposed ASU is extremely complex for many of the liabilities and assets held by insurance entities. Even though the effective date proposed for sensitivity testing (reporting periods ending after March 15, 2010) is later than the effective date for the remaining elements of the Proposed ASU, it provides insufficient time to implement the necessary systems and procedural modifications and to obtain the underlying information necessary to complete the sensitivity analysis. If the Board decides to proceed with sensitivity testing for Level 3 assets and liabilities, to permit sufficient implementation time, the effective date should be no earlier than December 31, 2010. In addition, the effective date should not be set until the Financial Instruments Project is completed, as it is likely the tests would have to be revised to reflect the results of that project.

**Other issues:**

With respect to liabilities, we are concerned about the potential disclosure of proprietary pricing information. Unobservable inputs used to determine the fair value of insurance liabilities may be equal to or very similar to the proprietary assumptions used to price new products. Accordingly, we do not believe it would be appropriate to disclose these inputs publicly.

We are also concerned with the added complexity associated with performing and disclosing these sensitivity tests for non-recurring measurements, such as in business combinations. We believe the disclosures would be even more burdensome than those for recurring measurements, since for insurance companies any liability involving insurance risk would require sensitivity tests on core insurance inputs such as mortality or morbidity.

Due to the diverse nature of Level 3 instruments, certain asset types such as private equity funds and hedge funds measured at fair value (e.g., in a pension plan's financial statements) are valued using significant non-market observable inputs. Moreover, because reporting entities do not have sufficient granular information about the models or inputs used by the funds to value these assets we believe compliance with the enhanced disclosure requirements of the Proposed ASU could be very challenging.

We also do not see value added in disclosures regarding transfers between Levels 1 and 2 in the fair value hierarchy as both Level 1 and Level 2 values are derived based on significant observable inputs.