November 13, 2006

Mr. Robert Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116
UNITED STATES

Re: Implementation and Interpretative Issues of SOP 05-1: Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts (the SOP or Statement)

Dear Chairman Herz :

The American Council of Life Insurers' 377 member companies account for 91 percent of the life insurance industry's total assets, 90 percent of the life insurance premiums, and 95 percent of annuity considerations in the United States. Our members operating in international markets represent virtually all North American life insurance, life reinsurance, and retirement security providers with a global presence.

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.

Our member companies are deeply concerned with the outstanding significant interpretation issues that exist with the SOP given the effective date of the Statement is January 1, 2007. The Statement, if implemented in its current form could create significant disparities in practice, which we believe is contrary to the basic objective of the SOP. Furthermore, with the impending SOP effective date and several significant unresolved issues, insurance companies will be forced to adopt piecemeal implementation as future guidance is issued. In addition, upon issuance of future guidance, companies will need adequate time to assess and evaluate the technical accounting ramifications, implement system and process changes, and determine the impacts on their Sarbanes-Oxley requirements. As a result of the preceding, we are recommending that the SOP be deferred one year from the original effective date, to allow significant implementation issues to be appropriately resolved and at the same time allow reporting entities the ability to evaluate and appropriately implement the new interpretations and eliminate the risk that would otherwise exist if the implementation guidance were to be issued on a piecemeal basis.

In order to further support our request for the FASB to delay the effective date of the SOP, we have described below our concerns with the timing, status and any potential material impact the new guidance may have for insurance companies.

While we are requesting a deferral of the effective date of the SOP, it is very important to note that this request is in no way attributable to affected reporting entities not engaging in timely implementation efforts. In stark contrast, the industry has put forth a good faith effort over the past year to ready the underlying systems, controls and processes in order to effectively implement this guidance in a timely manner. As a result of this process, the industry has discovered and has raised over 100 questions, including significant interpretation issues to the Insurance Experts Panel of the AICPA's Accounting Standards Executive Committee (AcSEC). The Insurance Experts Panel, mainly comprised of those responsible for developing the SOP, has focused on and continues to deliberate the more significant implementation issues, which could have a material impact to insurance companies. We also note that that the body that actually developed and promulgated the SOP continues to struggle in arriving at a consensus interpretation for particular issues, thus providing a very strong indication that the guidance needs to be further clarified before insurance companies will be able to meaningfully adopt its provisions. However, it is now less than two months prior to the implementation date and no formal guidance has been issued. While it is our understanding that there may be guidance issued later this year or early 2007 by AcSEC, in the form of a series of Technical Practice Aids (TPAs), to clarify the issues raised where a consensus has been reached, we are now concerned that the new guidance will not be complete and will not provide companies enough time to properly implement the changes.

Some of the fundamental interpretation issues raised by the industry, which are further described in Appendix A, include:

- Classification of reinstatements
- Accounting and transitional guidance related to guaranteed renewable contracts
- Treatment of contractual modifications prior to the date of adoption
- Embedded derivative ramifications when the host contract is extinguished
- Potential gains and losses at extinguishment of certain contracts
- Reinsurance accounting implications when the reinsured product is extinguished

Most of these issues, as we understand, are not expected to be included in the initial round of TPAs and, in fact, may go beyond interpretation and could require the FASB to issue additional guidance, or at least consider issuing such guidance. Further, consideration should be given to determine whether TPAs are the proper avenue to address implementation issues that would not allow for a proper comment period.

If the standard is allowed to be adopted as currently required with as many significant implementation issues still unresolved, we can expect that many companies will not be adequately prepared. As you know, the requirement of Sarbanes Oxley places an additional burden on our members as well. Therefore, we urge the Board to reconsider the current timeframe of adoption. Further, we believe there remains a high risk of inconsistency as to the proper implementation across the industry. The costs, both out-of-pocket and reputational, of implementing this SOP inconsistently, now more than outweigh any possible benefit from improved financial reporting. Therefore, we are recommending that the Board defer the effective date of the SOP until January 1, 2008 to allow a more thorough analysis of the significant remaining issues with adequate due process to allow companies time to properly implement the SOP's provisions.

Finally, since future guidance could materially impact companies, we would also urge the FASB to consider any proposed guidance be in the form of an FSP to allow companies the ability to comment.

If you have any questions regarding the contents of this letter, please contact us at anytime to discuss our request. Thank you in advance for your consideration in this matter.

Sincerely,

James F. Renz

Douglas Wm. Barnert

James F. Renz
Director, Accounting Policy
American Council of Life Insurers
101 Constitution Avenue NW
Washington, DC 20001

Douglas Wm. Barnert
Executive Director
Group of North American Insurance Enterprises, Inc.
40 Exchange Place, Suite 1707
New York, NY 10005

JFR:DWB:PFS:cll

cc: G. Michael Crooch, FASB

Appendix A

Described below are some of the interpretative issues raised by the industry to the expert panel. If future guidance is issued by AcSEC specifying one view or the other, companies who have been in good faith implementing the alternative view would need to dedicate significant time and resources to revise their accounting systems, policies and procedures.

Classification of reinstatements
There have been issues over whether reinstatements should be automatically considered internal replacements requiring DAC on the "lapsed" contract to be written off if the reinstatement occurs beyond the grace period allowed in the policy. However, most reinstatements end up involving no reunderwriting, thus placing the policyholder and insurer in the same position as they were prior to the "lapse".

Many insurers have interpreted the SOP to not require the DAC or similar balances to be written off for a policy reinstated after the grace period, as long as it is determined to meet the conditions in the SOP.

Others believe DAC and similar balances should be written off after the grace period.

Accounting and transitional guidance related to guaranteed renewable contracts
Many companies treat certain group term contracts (particularly guaranteed renewable contracts) as long duration contracts based on their interpretation of SFAS 60, paragraph 8. As such, they amortize the DAC over an average term allowed within the guidance, which assumes renewals of these contracts. Certain group policies periodically reset rates on such contracts based on the mortality or morbidity experience of the policyholder at regular intervals (generally one to three years).

Some companies interpreted rate resets as not meeting the definition of an internal replacement within paragraph 8 of the SOP.

Others believe rate resets meet the definition of an internal replacement and would result in a shortening of the DAC amortization life. Within this view some companies assume the transition impact will receive cumulative effect treatment while others assume prospective treatment at date of renewal.

Treatment of contractual modifications prior to the date of adoption
The provisions of the SOP are to be applied prospectively. There appear to be differences as to how companies are defining the term "original contract" for purposes of applying paragraph 9 of SOP 05-1 to contracts that are in force as of the effective date of the SOP.

Some companies are defining the term "original contract" as representing the contract as of the SOP effective date.

Others are defining the term "original contract" as representing the contract as it was originally issued.

Embedded Derivative ramifications when the host contract is extinguished
There appear to be differences in how companies have been assuming they need to treat liabilities under FASB Statement No. 133 ("FAS 133") for embedded derivatives on contracts affected by SOP 05-1.

Some companies view the SOP as requiring such FAS 133 liabilities to be written off when the host contract is substantially changed, treating such liabilities as an "other balance associated with the replaced contract" per paragraph 25.

Other companies view the SOP as not affecting liabilities for embedded derivatives, as FAS 133 specifies that such embedded derivatives should be held at fair value, and the fair value is not necessarily changed by a modification of the host contract.

Potential gains and losses at extinguishment of certain contracts
There appear to be interpretation issues around certain non-monetary consideration. The SOP specifies in paragraph 25 that liabilities for certain riders to an insurance contract must be written off upon a substantially changed modification.

Some companies apparently interpret these written off balances to be non-monetary consideration for the new/revised contract, and as such must be treated as an unearned revenue liability.

Other companies interpret paragraph 25 more literally, and believe that the written off balance begins at zero for the new contract but the liability gets re-accrued under the new contract in accordance with the provisions of SOP 03-1.

Reinsurance accounting implications when the reinsured product is extinguished
There are issues around the treatment of reinsurance contracts by a ceding enterprise where the underlying insurance contracts subject to a reinsurance arrangement are considered substantially changed modifications under the SOP. There is minimal guidance in the SOP regarding reinsurance accounting resulting in differing views being taken by companies.