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**PROPOSED CHANGE IN “AVAILABLE FOR SALE” ACCOUNTING CLASSIFICATION
COULD HAVE SEVERE RAMIFICATIONS FOR INSURANCE COMPANIES**

NEW YORK, June 15 – A coalition of insurance companies today expressed serious concerns about the possible impact on insurers of changes to the Available for Sale (AFS) classification of investments proposed by the International Accounting Standards Board and the Financial Accounting Standards Board (FASB).

The Group of North American Insurance Enterprises (GNAIE) told IASB Chair Sir David Tweedie that “severe ramifications” could result for insurance companies should AFS be changed in a manner that would harm their ability to present an accurate representation of an insurance company’s financial condition or performance.

The June 15 memorandum from GNAIE Executive Chairman Jerry de St. Paer, explained that insurance companies applying U.S. GAAP use the AFS classification requiring that periodic changes in fair value on underlying securities be recognized as unrealized gains or losses in Other Comprehensive Income (OCI) with reclassification into earnings when gains or losses are realized.

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

De St. Paer said that “maintaining this distinction is critical, especially for insurance companies, which focus on the availability of assets to satisfy policyholder claims.”

In this respect, he said, unrealized gains are not available, and may never be available to satisfy policyholder claims.

Similarly, unrealized losses, (e.g., attributable to increases in interest rates) may never be realized if the insurer does not intend to sell the security and it is more likely than not that it would not be required to sell the security before it recovers or matures.

“If the OCI designation within shareholder’s equity is not maintained and periodic changes in fair value are recognized directly into net income and retained earnings, we believe the informational value of shareholder’s equity would be diminished for insurers in terms of the availability of assets supporting equity to satisfy policyholder claims (or alternatively to repay debt or pay dividends),” de St. Paer said.

Depending on the ultimate resolution of the definitions of Amortized Cost, Fair Value and possible other classifications now under discussion by IASB/FASB, he said “eliminating the AFS classification and related ability to recognize gains or losses through OCI with subsequent reclassification to net income when realized could result in insurer financial statements not being useful to present an accurate representation of our financial condition or performance.”

De St. Paer also noted that GNAIE’s position is consistent with those of the European CFO Forum and the Japanese life insurance industry.

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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 users of financial reports.

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