

Group of North American Insurance Enterprises

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June 7, 2004

Sir David Tweedie
Chairman, International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: IASB Discussions Regarding Possible Amendments to IAS 30

Dear Sir David:

The Group of North American Insurance Enterprises (GNAIE) was formed in 2003 by the Chief Financial Officers of ten 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. The goal of GNAIE is to influence international accounting standards to ensure that they result in high quality accounting standards for insurance companies and, to that end, to increase communication between insurers doing business in North American and the International Accounting Standards Board (IASB) and the United States Financial Accounting Standards Board. GNAIE works to meet its goals through modeling of proposed accounting standards, analysis, comment, and coordination with various end users of financial reports.

GNAIE fully supports the objective of developing high quality international accounting standards that will improve financial reporting worldwide. In this context, we support the effort to develop global financial statement disclosure standards. High-quality disclosure standards assist a company's key stakeholders in better understanding operating performance and in making more informed business and investment decisions. We are writing today in an effort to strengthen those disclosures not only for insurance enterprises, but all enterprises in general.

With respect to the current IASB discussions regarding possible amendments to International Accounting Standard 30 - *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, GNAIE believes that certain aspects of the *Disclosures of Risks Arising From and Other Disclosures Relating to Financial Instruments* Project currently appears unlikely to result in a value-added disclosure standard for the insurance industry. While the proposed principles surrounding disclosure of the risks and uncertainties regarding financial instruments are sound and meaningful, GNAIE has concerns as regards to the disclosure requirements included within the principle *An Entity Shall Disclose Information That Enables Users of its Financial Statements to Evaluate the Nature and Extent of the Entity's Capital Resources ("Capital Resources")*. The Board's current position is outlined below:

To influence international accounting standards to ensure that they result in high quality, robust accounting standards for insurance companies.

The Principle

An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of the entity's capital resources.

1) An entity shall disclose:

- (a) Qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):
 - i. A description of what instruments it regards as capital;
 - ii. When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - iii. How it is meeting its objectives for managing capital.
- (b) Summary quantitative data about the instruments it regards as capital and any capital targets set by management; and
- (c) Any significant changes in (a) and (b) from the previous period.
- (d) Whether during the period it complied with the capital targets set by management and the externally imposed capital requirements it is subject to; and
- (e) When the entity has not complied, the consequences of such non-compliance. These disclosures shall be based on the information provided internally to the entity's Board of directors and chief executive officer.

2) An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and undertake banking activities, and those entities may also operate in several geographical areas. When an aggregate disclosure of how capital is managed and capital requirements would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose the information separately.

In general, the GNAIE is concerned that the proposed disclosure requirements would require insurers to reveal proprietary information that either has the potential to be used by other insurers to gain a competitive advantage or could be misread by readers and thus have unintended adverse consequences to the company. In order to give readers adequate insight and a meaningful overview of an insurer's capital management, we believe that under the proposed Project guidelines, the insurer would have to disclose information regarding their underwriting assessment criteria as well as guidance from rating agencies or regulators that a company is attempting to adhere to. Such insights are not necessarily intended for public consumption, and have the potential to be taken out of context.

Many insurers manage capital as part of the underwriting process by establishing a capital model and return on capital criteria to assess new business. Because capital management and proprietary underwriting assessments are often intertwined, most insurers consider information regarding capital management to be proprietary. For a sophisticated underwriter, risk-adjusted return on capital can be the primary factor in how they assess risk and determine pricing adequacy. To the extent any aspect of this management tool becomes public, peer companies could potentially use this information to win competitive bids and attract customers.

With respect to analysis performed by rating agencies or regulators, the disclosure of capital targets not currently made public by either the company, rating agencies, or regulators could result in adverse business consequences for a company; the very consequences that the rating agency or regulator is attempting to avoid with their recommendations to management. Currently, insurance rating agencies and regulators perform comprehensive

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reviews of insurers to determine the capital adequacy or the solvency position of an insurer. These reviews, including internal management capital assessments, are typically based on a multitude of factors and therefore, any attempt to simplify such analyses through disclosure of one or a few factors, such as a particular capital target, is subject to undue emphasis and scrutiny – either positively or negatively – by a user of the financial statements. It is important to note that in the United States, state regulators recognize the importance of propriety capital management data, and as such maintain confidentiality over the details of a company's regulatory Risk Based Capital analysis. Additionally, information requested by and distributed to rating agencies is done so under a strict confidentiality agreement.

In lieu of the IASB's current proposal regarding disclosure of capital resources, we recommend that the IASB consider adopting liquidity and capital resource disclosures using the SEC requirements outlined in Regulation S-K Item 303 sections 1-5 as a foundation (complete listing of the requirements are illustrated in Attachment 1). We believe the SEC requirements obligate insurers to disclose an appropriate level of information, which gives readers a reasonable understanding of its liquidity and capital resource position. While this information is currently included in the *Management Discussion and Analysis* section of the Form 10-K, the IASB should modify it to include only the information that should be contained in the notes to the financial statements. Specifically, we recommend avoiding financial statement disclosure requirements involving management's analysis of financial information (i.e. Section 3 of Item 303), such as its internal capital management process, and focus financial statement disclosure requirements on independent and objective information at the balance sheet date, such as commitments, uncertainties, and regulatory capital levels used to monitor a company and the implications of non-compliance.

In summary, while we believe management should be responsible for its capital adequacy and solvency position, it is the position of GNAIE that the task of opining on insurers capital adequacy is best handled by professional independent rating agencies and insurance regulators whose primary function is to judge capital adequacy and solvency.

We recognize that this letter contains a great deal of summarized information and that at times we may use shorthand descriptions for concepts familiar to participants in the United States insurance industry. Accordingly, we would be glad to meet with you to discuss this letter and the IASB Disclosures project specifically.

Yours very truly,

Mr. Howard I. Smith
Chair, Group of North American Insurance Enterprises
Vice Chairman, Chief Financial Officer, and Chief Administrative Officer
American International Group
70 Pine Street
New York, NY 10270
U.S.A.

cc: Robert H. Herz
Chairman
Financial Accounting Standards Board

Donald T. Nicolaisen
Office of the Chief Accountant
U.S. Securities and Exchange Commission

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Attachment 1 – SEC Regulation S-K Item 303 Sections 1-5

(1) LIQUIDITY

Identify any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. If a material deficiency is identified, indicate the course of action that the registrant has taken or proposes to take to remedy the deficiency. Also identify and separately describe internal and external sources of liquidity, and briefly discuss any material unused sources of liquid assets.

(2) CAPITAL RESOURCES

- (i) Describe the registrant's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purpose of such commitments and the anticipated source of funds needed to fulfill such commitments.
- (ii) Describe any known material trends, favorable or unfavorable, in the registrant's capital resources. Indicate any expected material changes in the mix and relative cost of such resources. The discussion shall consider changes between equity, debt and any off-balance sheet financing arrangements.

(3) RESULTS OF OPERATIONS

- (i) Describe any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and, in each case, indicate the extent to which income was so affected. In addition, describe any other significant components of revenues or expenses that, in the registrant's judgment, should be described in order to understand the registrant's results of operations.
- (ii) Describe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed.
- (iii) To the extent that the financial statements disclose material increases in net sales or revenues, provide a narrative discussion of the extent to which such increases are attributable to increases in prices or to increases in the volume or amount of goods or services being sold or to the introduction of new products or services.
- (iv) For the three most recent fiscal years of the registrant, or for those fiscal years in which the registrant has been engaged in business, whichever period is shortest, discuss the impact of inflation and changing prices on the registrant's net sales and revenues and on income from continuing operations.

(4) OFF-BALANCE SHEET ARRANGEMENTS

- (i) In a separately-captioned section, discuss the registrant's off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the registrant's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. The disclosure shall include the items specified in paragraphs (a)(4)(i)(A), (B), (C) and (D) of this Item to the extent necessary to an understanding of such arrangements and effect and shall also include such other information that the registrant believes is necessary for such an understanding.
 - (A) The nature and business purpose to the registrant of such off-balance sheet arrangements;

- (B) The importance to the registrant of such off-balance sheet arrangements in respect of its liquidity, capital resources, market risk support, credit risk support or other benefits;
 - (C) The amounts of revenues, expenses and cash flows of the registrant arising from such arrangements; the nature and amounts of any interests retained, securities issued and other indebtedness incurred by the registrant in connection with such arrangements; and the nature and amounts of any other obligations or liabilities (including contingent obligations or liabilities) of the registrant arising from such arrangements that are or are reasonably likely to become material and the triggering events or circumstances that could cause them to arise; and
 - (D) Any known event, demand, commitment, trend or uncertainty that will result in or is reasonably likely to result in the termination, or material reduction in availability to the registrant, of its off-balance sheet arrangements that provide material benefits to it, and the course of action that the registrant has taken or proposes to take in response to any such circumstances.
- (ii) As used in this paragraph (a)(4), the term off-balance sheet arrangement means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the registrant is a party, under which the registrant has:
- (A) Any obligation under a guarantee contract that has any of the characteristics identified in paragraph 3 of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (November 2002) ("FIN 45"), as may be modified or supplemented, and that is not excluded from the initial recognition and measurement provisions of FIN 45 pursuant to paragraphs 6 or 7 of that Interpretation;
 - (B) A retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets;
 - (C) Any obligation, including a contingent obligation, under a contract that would be accounted for as a derivative instrument, except that it is both indexed to the registrant's own stock and classified in stockholders' equity in the registrant's statement of financial position, and therefore excluded from the scope of FASB Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (June 1998), pursuant to paragraph 11(a) of that Statement, as may be modified or supplemented; or
 - (D) Any obligation, including a contingent obligation, arising out of a variable interest (as referenced in FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (January 2003), as may be modified or supplemented) in an unconsolidated entity that is held by, and material to, the registrant, where such entity provides financing, liquidity, market risk or credit risk support to, or engages in leasing, hedging or research and development services with, the registrant.

(5) TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

- (i) In a tabular format, provide the information specified in this paragraph (a)(5) as of the latest fiscal year end balance sheet date with respect to the registrant's known contractual obligations specified in the table that follows this paragraph (a)(5)(i). The registrant shall provide amounts, aggregated by type of contractual obligation. The registrant may disaggregate the specified categories of contractual obligations using other categories suitable to its business, but the presentation must include all of the obligations of the registrant that fall within the specified categories. A presentation covering at least the periods specified shall be included. The tabular presentation may be accompanied by footnotes to describe provisions that create, increase or

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accelerate obligations, or other pertinent data to the extent necessary for an understanding of the timing and amount of the registrant's specified contractual obligations.

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
[Long-Term Debt Obligations]					
[Capital Lease Obligations]					
[Operating Lease Obligations]					
[Purchase Obligations]					
[Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP]					
Total					

(ii) Definitions: The following definitions apply to this paragraph (a)(5):

- (A) Long-Term Debt Obligation means a payment obligation under long-term borrowings referenced in FASB Statement of Financial Accounting Standards No. 47 *Disclosure of Long-Term Obligations* (March 1981), as may be modified or supplemented.
- (B) Capital Lease Obligation means a payment obligation under a lease classified as a capital lease pursuant to FASB Statement of Financial Accounting Standards No. 13 *Accounting for Leases* (November 1976), as may be modified or supplemented.
- (C) Operating Lease Obligation means a payment obligation under a lease classified as an operating lease and disclosed pursuant to FASB Statement of Financial Accounting Standards No. 13 *Accounting for Leases* (November 1976), as may be modified or supplemented.
- (D) Purchase Obligation means an agreement to purchase goods or services that is enforceable and legally binding on the registrant that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.