

Date:	Monday, June 15, 2009
To:	Sir David Tweedie, Chair, IASB
From:	Jerry de St.Paer, Executive Chair, GNAIE
Subj:	Available for Sale in Financial Instruments

We have been following closely the IASB/FASB discussions on the classification and measurement of Financial Instruments. While we realize that those discussions are ongoing, we would like to clarify one point.

Insurance Companies that apply US GAAP frequently use Available for Sale (AFS) as the designated classification for investments within the scope of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* measured at fair value on their balance sheet. The AFS classification requires that periodic changes in fair value on the underlying securities be recognized as unrealized gains and losses in Other Comprehensive Income (OCI) with reclassification into earnings when gains or losses are realized.

We believe maintaining this distinction is critical, especially for insurance companies, which focus on the availability of assets to satisfy policyholder claims. In this respect, 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. Accordingly, if the OCI distinction 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). Depending on the ultimate resolution of the definitions of the Amortized Cost, Fair Value, and possible other classification categories, eliminating the AFS classification and related ability to recognize unrealized 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.

At the same time, with work still underway on the insurance project, we are unable to say whether eliminating AFS would create an artificial asset/liability mismatch or not. In particular, if the Insurance Contracts project requires use of a current value for liabilities with discount rates moving each measurement period, use of a held-to-maturity model would be inconsistent. This would effectively require all financial instruments to be held at fair value.

We are not convinced that this would be an appropriate result, given the limitations described above together with the absence of markets from which reliable fair value measurements for insurance contracts could be obtained.

In summary, you should be aware that there would be severe ramifications, at least to the insurance industry, if the AFS category were to be changed in the manner it has been proposed. As a result of discussions we have had at the end of last week, we believe this position is consistent with the position of the European CFO Forum and the Japanese life insurance industry.

JdSP:AcCCom:dwb

Copies to: Mr. Robert Herz, Mr. Paul Cherry, Mr. Dennis Chookaszian