



April 17, 2009

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

Dear Sir David:

The GNAIE Accounting Convergence Committee has reviewed the agenda papers for the IASB meetings next week and would like to offer the following comments for consideration by the Board Members in their deliberations.

**Staff Papers 5A and 5B – Margins**

We have several concerns about the presentation on margins in these papers. We think the papers take an overly restricted view about how candidate 4 could work.

- The description of candidate 4 should begin the same as candidate 3, namely that the expected cost of fulfilling the obligation to the policyholder is the starting point for the liability. Amounts in excess of this would be the margin.
- **However, we think that candidate 4 has substantial advantages over candidate 3.** We do not believe that the so-called risk margin under candidate 3 is a meaningful separation. In our view, the margin under candidate 4 represents the company's view as to the required margin for the product, built into the premium, and a separation into pieces simply generates more numbers for the financial statement thereby reducing reliability and understanding. Simply calling it a risk margin does not mean that it's more meaningful than the total margin in candidate 4 and one still ends up with a residual margin in most cases that is another number to deal with. There does not seem to be a requirement for such a separation of the margins in Revenue Recognition, although there generally are risks and uncertainties in most (non-insurance as well as insurance) contracts.
- Candidate 4 can and should be defined in a way that would preclude the need for a special liability adequacy test at any time. At inception, the present value of future premium is compared to the present value of future benefits and expenses. If the premiums are greater than the benefits and expenses, then a margin is added to the liability. If premiums are less than the benefits and expenses, then the liability is set equal to the benefits and expenses. This is consistent with the onerous contract test within the Revenue Recognition project.

Jerry M. de St. Paer  
Executive Chair

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- We don't see the value of including a margin in the liability for policies that fail the liability adequacy test. Such a margin simply increases today's loss and creates an expectation of offsetting earnings in the future. This also is contrary to the treatment in Revenue Recognition.

### **Staff Paper 5C – Acquisition Costs**

Our tentative view is that we agree with staff's proposal for the treatment of acquisition costs in this paper. This view is tentative pending resolution of the other aspects of establishing the liability for insurance contracts.

### **Staff Paper 5D – Policyholder Behaviour**

This paper seems to be heading in the appropriate direction. However, we would note that the table on page 7 does not include expenses as a contract outflow. We assume this is an oversight. Otherwise, not including expenses would create the need for a very large margin in the reserves.

### **Staff Paper 8A Liabilities – amendments to IAS 37 – Measurement Issues**

We are concerned with staff's recommendation that the Board finalize guidance on measurement without resolving certain fundamental issues debated at previous meetings. Due to the nature and significance of the issues, the significant Board support on both sides, and the fact that they affect not only IAS 37 but also other important projects such as Revenue Recognition, we do not support truncating the debate. We believe that doing so might have the practical effect of resolving those issues differently from what might result from a complete debate.

A primary issue around which differing views have emerged among Board members is the measurement objective in IAS 37 and whether it should be a settlement or transfer notion. There is significant Board support for a settlement based objective but, as noted in paragraph 14, support for other views as well. As this issue is critical to determining how to measure liabilities under IAS 37 we believe it should only be resolved on the basis of debate and discussion and should not be truncated in the name of practical expediency. Furthermore, we are concerned that a decision here might be viewed as settling this issue for other important papers, such as Revenue Recognition, that appear at the moment to be taking a different route.

Sincerely,

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

Kevin A. Spataro  
Chairman, GNAIE Accounting Convergence Committee

KAS:dwb

Copies to: IASB Members, FASB Members  
Hans van der Veen  
Jeffrey Cropsey

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