



December 15, 2009

Mr. Robert Herz, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856

Sir David Tweedie, Chairman  
International Accounting Standards Board  
30 Cannon Street, First Floor  
London, EC4M 6XH UK

Dear Chairmen:

We would like to share some observations with you about the use of margins in accounting for insurance contracts, which we believe should be considered in your joint discussion of this subject that is scheduled for Wednesday, December 16. We believe that the background information to be presented at the meeting should include preliminary feedback from the phase 2 field test on margins. We understand that a more complete and comprehensive discussion of field test results is tentatively planned for February 2010, and that there has not been sufficient time for a full analysis of the responses received to date; but we think you should hear about the preliminary results which may be relevant to your discussion.

The field test questionnaire on margins at inception was posted on October 26 with a request for return from participating companies by November 20. We understand that several participants devoted a considerable amount of time and thought in preparing their responses. We believe that the following questions in the field test are particularly relevant to your upcoming discussion.

- Q6. Do you currently include an explicit risk margin in the measurement of your insurance contract liabilities under your existing accounting model or for any other purposes?
  
- Q11. What practical issues do you expect to encounter when estimating the risk margin under the IASB proposals? What is the operational impact (cost/benefit considerations)?

We believe that the responses to these questions and others (such as questions 7, 8, 9, and 10) in the field test will highlight the limited decision-usefulness of information about theoretical risk margins. We acknowledge that a variety of methods have been proposed for calculating risk margins; but we also note that the calculated risk margins can vary widely depending on the methods and assumptions that are used. Perhaps more insurers will use such information in the future, based on improvement in current methods or development of new approaches; but the timing of such future changes and the extent to which they will provide improved reliability and decision-usefulness of the calculations are uncertain at this time.

Jerry M. de St. Paer  
**Executive Chair**

Douglas Wm. Barnert  
**Executive Director**

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We note that there is a statement on page 1 of the field testing questionnaire on margins at inception, which indicates that staff intends to send out follow-up requests on margins that will address in more detail subsequent treatment of margins and determination of a risk margin. We encourage board members to provide ideas to the staff for information they would like to get from such follow-up requests. We would be happy to work with staff on formulating these requests.

Several of our members are included among the participating companies in the phase 2 field tests. We believe that much additional information that will be useful to the boards can be collected from the field tests. We further believe that the best way to encourage broad participation, both in terms of the number of companies and the attention they devote to their responses, is for the boards to give serious consideration to the responses.

Sincerely,

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

Kevin Spataro  
Chairman, GNAIE Accounting Convergence Committee

KAS:KK:c11