



November 7, 2005

Andrea Pryde
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International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom

RE: Consequential Amendments to the Guidance on Implementing IFRS 4”, per IFRS 7 *Financial Instruments: Disclosures*

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Dear Ms. Pryde:

Thank you for the opportunity to comment on “Consequential Amendments to the Guidance on Implementing IFRS4”, per IFRS7 *Financial Instruments: Disclosures*. On behalf of GNAIE, I am pleased to provide you comments in response to your Invitation to Comment.

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.

Given the open discussion underway in the Insurance Working Group, and the commitment the Board made at that time to develop an insurance standard from a blank slate, with no pre-ordained conclusion other than that the insurance standard will be consistent with the Framework, we believe only minimal essential changes to IFRS 4 implementation guidance is appropriate at this time. The Insurance Working group has identified four life insurance models for consideration, two of which involve lock-in of actuarial assumptions with loss recognition. We recommend that detailed guidance on IFRS 4 disclosures should follow, rather than precede, substantive decisions on the insurance standard. We recommend that the task of developing implementation guidance in conformity with IFRS 7 should be part of Phase II for insurance contracts.

The draft Implementation Guidance overall appears too specific for a “principles-based” standard. For example, IG 32, IG 36, IG37, IG 39, IG48, IG 51 and many others use the phrase, “An insurer might disclose...” in the context of a particular disclosure choice. Auditors will use the specific examples as firm guidance on appropriate practices. Thus, the statement should limit specific examples to mandatory items, because this is how the examples will apply in practice. Optional items should be described only in general terms.

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

Embedded value reporting, for one, is an evolving practice with supporters as well as detractors in the analyst community worldwide. It provided overly rosy estimates during the 1999 – 2001 equity bubble, yet the final standard references it specifically (para 39A, IG 18. IG 65F). Earnings-by-source information, though an area of interest for the Insurance Working Group, does not appear in the draft guidance. We believe the guidance should not implicitly endorse any value measure. Specific references to embedded value reporting should be excluded from the implementation guidance.

Where significant judgment is required to choose the appropriate disclosure, the information may well be too specific to the position and practices of an individual company. Such information should not be part of the financial statements. Instead, management should provide such information to users outside of the audited financial statements. We recommend that IASB discuss this matter with CESR: the Forum of European Securities Commissions. While IASB has no official capacity to regulate information disclosed outside the financial statements, this should not be the basis to require non-comparable information within the financial statements.

We have a number of specific concerns, which are listed below in order of priority:

IG58 requires disclosure of whether the entity complied with any externally imposed regulatory capital requirement during the period. The actual process of regulating an insurer’s solvency requires dialogue in an atmosphere of trust. Precisely when solvency is in question, both regulators and management need to act quickly to re-assess and change strategy, without the pressure of automatic disclosure rules. Regulators always have the alternative of disclosing non-compliance with their rules. It may be that the stated “rules” are not appropriate for the crisis at hand. When regulators have chosen not to do so, it would be inappropriate for the financial reporting standard to require automatic disclosure.

Further, “external capital requirements” are those imposed by regulators with legally enforceable obligations to protect solvency in the interest of policyholders. Rating agency capital requirements, like other financial journalism, do not have the force of law and should be explicitly excluded from the standard.

IG48 (a) (vi) proposes that an insurer “might” disclose elements of internal risk measurement models, such as confidence intervals, model parameters, and historical observation periods. As such aspects of risk management tools become public information, peer companies will use this information for competitive advantage. The guidance should not be in such detail as to require detailed disclosure of proprietary management practices. This paragraph should be limited to the first phrase, “(vi) the scope and nature of the insurer’s risk reporting or measurement systems” full stop.

IG65C-IG65F refers to the effect of a “reasonably possible” change in market risk factors on profit/loss and equity during the period. We agree that the market risk disclosure should refer to “profit/loss or equity” and not to “value”. However, until the Phase II project on developing a reporting standard for insurance contracts is substantially complete, companies will be reporting on substantially different current national bases. This will create irrelevant and non-comparable disclosures. We recommend required disclosure of insurance-related market risk wait for the completion of Phase II.

The sensitivity of insurance contract values to market risk is complicated by interaction effects, and by the difficulty of developing verifiable forecasts for customer behavior in response to market conditions. This touches on an important issue for the insurance working group – the “intermediate” forms of participation, between pure unit-linked products and pure non-par contracts. Certain US products such as universal life allow discretionary crediting strategies, which change in response to market conditions. In addition, even for non-par contracts, customers



almost always have the right to “cut their losses” in response to market conditions and surrender the contract. This basic valuation uncertainty should be recognized in the standard, so that investors do not over-rely on forward-looking estimates of market sensitivity.

The specific market risks covered by this disclosure should be articulated in the standard. We presume they include interest rate and equity risk. Disclosure of FX risk should be based on the consolidated reporting entity, using the functional currency of the parent.

Investors differ on what is a “reasonably possible” change in market index levels. This cannot be abstracted from market prices for options or other securities. The disclosure standard should either note that such estimates are likely to differ from company to company, or exclude them entirely.

We recognize that there are many complex issues involved in improving the insurance reporting standard. Overall, we believe investors will be better served when specific standard disclosures are shown in the notes to financial statements, and detailed explanations of value are provided separately, as part of Management’s Discussion and Analysis. We would be glad to meet with you to discuss this letter in more detail.

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas Wm. Barnert". The signature is written in a cursive, flowing style.

Douglas Wm. Barnert
Executive Director

DWB:JK:mtf