



December 11, 2009

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

RE: IASB December Agenda Paper 16: *The use of other comprehensive income (OCI)*.

Dear Sir David:

We are disappointed by the recommendation in Agenda Paper 16 for the December IASB meeting (on the use of other comprehensive income (OCI) for insurance contracts). The recommendation in that paper is made despite the strong arguments in favor of using OCI that are summarized in the paper, even though those arguments are not refuted in the paper. Furthermore, as described below, we believe that the arguments against permitting or requiring the use of OCI that are listed in paragraphs 18 and 19 of the paper (and summarized in paragraph 34) are weak and/or incorrect.

As noted in the paper (in paragraph 9), users, preparers, and others have consistently stated that it is important to avoid accounting mismatches. Then in paragraph 13, the paper notes that if the boards wish to address accounting mismatches, they may do so by:

- a) changing the accounting for an insurer's assets; or
- b) requiring or permitting insurers to use OCI to report some or all changes in their insurance liabilities.

We agree that accounting mismatches for insurance contracts can be avoided in either of these ways. If the board rejects the first alternative, we believe that it must address the problem of accounting mismatch in another way (such as the second alternative listed above). If not addressed, accounting mismatches will lead to short term volatility in financial results that is not driven by economic value of long term insurance contracts, which will lead to financial reporting that is neither reliable nor relevant.

We find it strange that the paper argues that the use of OCI would be likely to require complex and perhaps onerous procedures, while a wide body of preparers (who would have to implement the procedures) contend that such procedures are necessary and appropriate. The test should be whether the benefits of the procedures justify the costs. We believe that the paper grossly over-estimates the incremental cost of implementing such procedures, without presenting any evidence to support that view, while grossly under-estimating the need to minimize accounting mismatches in order for insurers to present relevant and reliable financial statement results.

Jerry M. de St. Paer
Executive Chair

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The paper further contends that an insurer could avoid accounting mismatches by using the fair value option for its assets. However, we believe that this supposed solution to the mismatch problem would lead to a lack of comparability between financial reporting for insurers and other financial institutions, such as banks, which may use amortized cost for some financial assets and liabilities. On this basis, unrealized profits and losses from financial assets that are held for long-term purposes would not be included in reported net income for banks, but would be included in reported net income for insurers. Furthermore, even if an insurer were to use the fair value option for all of its assets, there would still be considerable volatility in the financial results reported by insurance companies that is unrelated to the underlying economics of the business, if the discount rates used for assets and liabilities are not consistent.

At the very least, we think that the boards should collect information on the costs and benefits of permitting or requiring the use of OCI, including an assessment of the deterioration in relevance and reliability of financial reporting that would result if there were no acceptable mechanism for minimizing accounting mismatches. The field tests that staff is currently conducting may be one vehicle for gathering information on which appropriate consideration of this critical subject could be based.

The paper identifies a fundamental challenge for financial reporting of insurance contracts, but ends up recommending no solution to the problem while not presenting convincing arguments against one of the possible solutions that it identified. We have presented our views on OCI to the boards on several occasions, including in letters we submitted jointly with the four largest Japanese life insurance companies on July 25, 2008, February 4, 2009, and October 27, 2009. We still believe that the position we presented in those letters and in this letter provide the best solution to the problem of accounting mismatches. We would welcome the opportunity to discuss this subject further with the boards and/or staff.

Sincerely,

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

Kevin Spataro
Chairman, Accounting Convergence Committee
kk:wes

CC: Mr. Robert H. Herz, Chairman, FASB
FASB Members/IASB Members
Mr. Has van DerVeen, Practice Fellow, IASB
Mr. Jeffrey Cropsy, Project Manager, FASB