



September 9, 2009

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

Dear Sir David:

The Group of North American Insurance Enterprises (GNAIE) understands the importance of agreeing on a measurement approach as the critical next step in moving forward on the IASB and FASB's joint project to develop an international accounting standard for insurance contracts. GNAIE supports the Contract Fulfillment Value measurement approach ("the CFV approach") that the IASB is considering and upon which the FASB has tentatively agreed. The IASB could take a significant step toward convergence of international accounting standards if it is able to reach the same conclusion that the FASB reaches for the measurement approach for insurance contracts.

The CFV approach is based on settlement with the policyholder pursuant to the terms of the insurance contract, and therefore it is fundamentally different than a measurement approach that is based on immediate settlement or transfer of insurance obligations. Our position on the CFV approach is described more fully in several letters we have sent to the IASB.

GNAIE is disappointed that the IASB staff is recommending a measurement approach for insurance contracts that remains under development in the IASB project to amend IAS 37 (the pending IAS 37 approach) in Staff Paper 17A for the September IASB meeting. GNAIE is also disappointed to see that in recommending this approach, the IASB staff has not addressed the following fundamental flaws in their effort to apply the pending IAS 37 approach to insurance contracts.

- 1) The main argument in favor of attempting to apply the pending IAS 37 approach to insurance contracts is consistency with accounting for non-insurance financial instruments, including those that fall within the scope of IAS 37. However, IAS 37 is still very much a work in process, with key issues yet to be resolved. One such issue is treatment of service obligations. The IASB will be discussing whether changes to IAS 37 should be re-exposed in view of the extent of the changes, and it is not yet clear what some of these changes will be or how long it will take to reach agreement on them

GNAIE believes that service aspects of insurance contracts are ancillary to fundamental insurance coverage obligations, and that it is generally not meaningful to separate out such service elements. Similarly, GNAIE believes that separation of composite margins into components such as risk, service, and profit components is largely an arbitrary process that would impair comparability between insurers.

- 2) The IASB and FASB joint project on Revenue Recognition is also a work in process. However, GNAIE believes that the tentative conclusions that the two Boards have reached to date in this project (i.e., the customer consideration approach) are much more consistent with the CFV approach than the IASB is considering for insurance contracts than they are with the pending IAS 37 approach.

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

Douglas Wm. Barnert  
**Executive Director**

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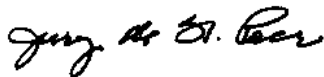
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- 3) In addition, both the IASB and FASB have tentatively agreed that the initial liability for insurance contracts should be calibrated to “no gain at inception”. The CFV approach reaches this result with a composite margin that is derived from the premium charged for the contract and the expected cash flows, amounts that can be determined from verifiable, relevant values. In contrast, the IAS 37 approach would break the margin into a risk component, perhaps a service component, and a residual component. GNAIE believes that such distinctions would add significant complexity without providing significant value. Such component pieces are not verifiable or reliable relative to actual market information, and are calculated in a manner that is not related to how the insurance business is managed. We understand that the IASB staff will be presenting additional information on treatment of residual and composite margins in Staff Paper 17C.
- 4) The pending IAS 37 approach is fundamentally based on transferring contract obligations (i.e., based on the amount the entity would rationally pay to be relieved of such obligations). However, as the IASB staff notes in Staff Paper 17A, there is typically no active market for transfer of insurance obligations. A transfer based measurement approach is therefore inconsistent with the basic operations of insurance entities, and must be based on hypothetical events that are unlikely to occur. Measurements on such a basis necessarily rely on theoretical assumptions about what the conditions should be in markets that do not exist. GNAIE believes that such an approach will require substantial guidance to implement; and even with such guidance, the measurement would not be grounded in observable and verifiable market information, and would still be difficult to use for comparisons among entities. Our concerns about such measurement are generally the same as those widely expressed about the Current Exit Value measurement basis that was proposed in the IASB 2007 Discussion Paper on insurance contracts, and ultimately rejected by both the IASB and FASB.

In summary, GNAIE believes there are fundamental problems with attempting to measure insurance contracts using the pending IAS 37 approach, and those problems cannot be addressed as well in such a measurement approach as they could be addressed by the CFV approach. The FASB has tentatively agreed on the CFV approach. In Staff Paper 17A, the IASB staff acknowledges that the FASB is unlikely to change this position, at least in the near term, and that it may be necessary to include both measurement approaches in the Exposure Draft on an insurance contracts standard if the IASB agrees with the staff recommendation. GNAIE respectfully asks the IASB to consider the issues that remain to be resolved in the IAS 37 project and the problems with attempting to apply such an approach to insurance contracts. GNAIE is optimistic that such consideration will lead to conclusions similar to those reached by the FASB, and will be a significant step toward convergence of international accounting standards.

GNAIE also notes that as of this writing, two important staff papers for the September IASB discussion of insurance contracts have not yet been released (Staff Paper 17C on treatment of residual and composite margins and Staff Paper 17D on discount rates). We will review Staff Papers 17C and 17D as quickly as we can after they become available, and we will share our comments on them with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry de St. Paer". The signature is written in a cursive, flowing style.

Jerry de St.Paer  
Executive Chairman  
JdSP:kk:cll

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