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Executive Director

October 8, 2008

Ms. Hilary Eastman  
IASB Expert Advisory Panel  
heastman@iasb.org  
Responses requested via email only

Dear Ms. Eastman:

The Group of North American Insurance Enterprises (“GNAIE”)<sup>1</sup> appreciates the opportunity to comment on the International Accounting Standards Board (“IASB”) Expert Advisory Panel (“EAP”) document: *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*.

While we understand the observations contained in the document do not establish new requirements for entities applying International Financial Reporting Standards or any other generally accepted accounting principles, we are nonetheless fully aware of the intent of standard setters, regulators, and auditors to use the observations as interpretive guidance in the application of accounting standards that require fair value measurements. Our principal concern with the document relates to the proposed weight placed on market evidence in the form of transactions occurring in inactive or illiquid markets. While the document indicates that in measuring the fair value of financial instruments, all available relevant market information should be considered, (including prices from recent transactions in the same or similar instruments, quotes from brokers and pricing services, indices and other inputs to model-based valuation techniques) it does not question the relevance of prices obtained from *recent transactions in the same or similar instruments* when such transactions occur in markets that are not operating in an orderly manner or where there is otherwise either an imbalance between buyers and sellers or an absence of buyers and sellers (i.e., illiquid or inactive markets).

As a result of the preceding, GNAIE believes the document fails to address the critical issue that served as the principal reason for convening the EAP. More specifically, the document places far too much reliance on values obtained from transactions occurring in markets acknowledged to be illiquid and or inactive based on the rationale that they represent both an exit price (the measurement attribute in IAS 39) and result from transactions executed between market participants.

<sup>1</sup> GNAIE consists of the Chief Financial Officers of 18 leading insurance companies including life insurers, property and casualty (“non-life”) insurers, and reinsurers. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations. All are major participants in the US markets.

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We believe the interpretive guidance inappropriately elevates the importance and credibility of prices obtained from illiquid or inactive markets by making it clear that transaction prices obtained from illiquid or inactive markets cannot be ignored when measuring fair value. Furthermore, instead of placing little to no weight on the determinative value of such information, the document contends that forced transactions, involuntary liquidations and distress sales are rare; thus suggesting that transaction prices obtained from illiquid or inactive markets should be determinative in measuring fair value.

GNAIE strongly disagrees with the observations set forth in the document as we do not believe the measurement attribute in IAS 39 is *liquidation value* which is precisely what is achieved when applying the proposed interpretive guidance. As substantiation, we would point to the outcome of the application of such guidance during the course of the world wide credit crisis wherein reported fair values of illiquid securities are increasingly derived from inactive and illiquid markets and the use of those values has substantially reduced reported capital balances resulting in downgrades by credit rating agencies thereby severely reducing the entity's ability to continue to obtain access to the liquidity necessary to continue to operate as a going concern. As financial institutions have failed the depressed value of their assets has become even further depressed and the "fair value contagion" has continued to spread ever farther and wider as new liquidation or fire sale prices are observed and then applied to remaining healthy institutions thereby eroding their capital and perpetuating the downward spiral.

GNAIE does not oppose the use of fair value as a measurement basis, however, we believe its use is only appropriate where markets are active, orderly, and liquid as evidenced by a balance of buyers and sellers. We believe that absent those critical, fundamental attributes, any transaction price obtained from such markets does not represent "fair value". Accordingly, we believe the IASB's Expert Advisory Panel should fully reconsider its observations and interpretive guidance as we do not believe it is either helpful or appropriate in the determination of fair value in situations where markets are illiquid or inactive. We would also point out that for the same reasons we have significant concerns about the proposed guidance and its application to financial assets that lack markets that are active, orderly, and liquid, we are equally concerned with the IASB's long-standing effort to impose a fair value-based measurement model on insurance contracts where no markets exist to corroborate the basic validity of periodic measurements.

Sincerely,

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

Jerry M. de St. Paer  
Executive Chairman, GNAIE

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