

February 15, 2011

Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Chairman Seidman:

The Statutory Accounting Principles (E) Working Group (SAPWG) of the National Association of Insurance Commissioners (NAIC) has actively been following the discussions regarding financial instruments by the FASB and the IASB. Although not officially exposed for comment, we feel compelled to comment on the FASB decisions reached to date as of January 25, 2011, based on how this could negatively affect the industry we regulate.

In reviewing the January 25, 2011 decisions reached to date, it appears that an inherent conflict exists in the following guidance:

The Board decided that the business strategy criterion for classification and measurement purposes should incorporate the level of market activity for a financial asset. The Board decided that a business activity approach should be used and that financial assets managed through a lending or customer financing activity that an entity holds for the collection of contractual cash flows should be measured at amortized cost.

The Board decided that for all other business activities, financial assets should be measured at fair value. The Board decided that financial assets for which an entity's business activity is trading or holding for sale should be classified in the FV-NI category and that financial assets for which an entity's business activity is investing with a focus on managing risk exposures and maximizing total return should be classified in the FV-OCI category.

It seems that the initial sentence "the business strategy criterion for classification and measurement purposes should incorporate the level of market activity for a financial asset" conflicts with the explicit guidance that requires "lending or customer financing activity" in order to utilize an amortized cost measurement, with all other business activities being measured at fair value. Under the principle of the financial instrument guidance (level of market activity), financial assets (e.g., bonds) held by an insurance enterprise would qualify for amortized cost measurement, as it is a long-standing business practice of insurers to match invested assets with liabilities by holding many of those financial assets backing the liabilities, to maturity. With limited market activity, it seems clear and consistent that such assets would be appropriately accounted for at amortized cost. Otherwise, the use of fair value can cause fluctuations within an insurer's financial statements that are inconsistent with the insurance business model; thus reflecting a financial position that does not depict the most relevant information to the user of the financial statements. Also, the explicit guidance requiring "lending or customer financing activity" is a limited and very narrow exception that seems specifically focused on particular types of entities, rather than the substance of the transaction or economic phenomenon (i.e., holding securities for the collection of contractual cash flows). We note that this restriction is inconsistent with IFRS 9.

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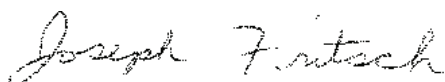
We have concerns that this restriction would diminish the comparability with other financial sector participants for similar activities such as issuing mortgages, selling guaranteed income contracts and other long duration activities. We believe that this entity-specific exception would seemingly conflict with the comparability and consistency decision-specific qualities identified within *FASB Statement of Financial Accounting Concepts No. 8* issued in September 2010. As excerpted from that guidance, *information about a reporting entity is more useful if it can be compared with similar information about other entities. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity, or in a single period across entities. Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different. Some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics. A faithful representation of a relevant economic phenomenon should naturally possess some degree of comparability with a faithful representation of a similar relevant economic phenomenon by another reporting entity. Although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability.*

Furthermore, although of a different nature, this entity-specific exception also seems to contradict the desired improvements reflected within the *Discussion Paper: Preliminary Views of Insurance Contracts*. As noted within that Discussion Paper (also issued September 2010), the FASB is looking to improve current accounting guidance so the type of entity will not impact accounting if contracts contain similar risk and economic characteristics.

As evidenced above, we believe the current tentative decision limiting amortized cost measurement for specific entities is inherently inconsistent with the statement of concepts, and conflicts with other recent decisions from the FASB, which establish that the type of entity should not impact accounting measurement. We strongly encourage you to reconsider this tentative conclusion, allowing amortized cost measurement in all situations, regardless of entity type, in which the business activity is to hold such securities for the collection of contractual cash flows.

Thank you for considering our comments. Should you have any questions, please contact me at 212-480-2299, or the following NAIC staff: Rob Esson 816-783-8131, Julie Gann 816-783-8966, Robin Marcotte 816-783-8124 or John Tittle 816-783-8120.

Sincerely,



Joseph Fritsch
Chair, NAIC Statutory Accounting Principles Working Group
New York State Insurance Department - Director of Insurance Accounting Policy

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