



October 19, 2010

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. 4-608: Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers

Dear Ms. Murphy,

The Allstate Corporation ("Allstate") is pleased to provide comments on the Securities and Exchange Commission's ("SEC's") Notice of Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers ("Solicitation for Comment") as related to issuers' compliance with contractual arrangements that require the use of U.S. Generally Accepted Accounting Principles ("U.S. GAAP"); issuer's compliance with corporate governance requirements; and the application of certain legal standards tied to amounts determined for financial reporting purposes.

Allstate supports the FASB and IASB efforts to develop a single set of high quality global accounting standards. However, we urge the Boards (i.e., FASB and IASB) and the SEC to continue to evaluate the costs associated with IFRS adoption in the U.S., including the costs associated with pervasive education requirements for financial statement users and issuers and the investment in technology that will be required to adopt IFRS, and thus we appreciate the opportunity to respond to this Solicitation for Comment. We urge the SEC to continue to evaluate all significant implications to adoption of IFRS to allow a thorough cost/benefit analysis to be completed.

As is noted in our responses to the Solicitation for Comment in the attached Appendix, certain financing arrangements, such as credit facilities and certain lease agreements generally make reference to either U.S. GAAP reporting or financial measures that are based on U.S. GAAP amounts. When these references are standard provisions, it will result in the need for the maintenance of an extra set of GAAP accounting records or contractual modifications for all U.S. companies who have similar arrangements and thus, these efforts would be substantial given the number of companies impacted.

Allstate Insurance Company
2775 Sanders Road
Northbrook, Illinois 60062

Allstate is a large investor in global debt and equity markets (i.e., our investment portfolio is approximately \$100 Billion) and a lender in a significant number of privately negotiated lending arrangements where financial covenants may require modification. As a result, we recommend these modification efforts be considered when finalizing a timeline for IFRS adoption in the U.S. In addition, Allstate has identified employee related arrangements (e.g., executive bonus targets, performance metrics, stock incentive arrangements, etc.) that would require modification. Such modification efforts, along with evaluating current compensation related plan designs, are expected to be more than insignificant.

Although the described modifications to both contractual arrangements and employment related arrangements are substantial, we believe these could be completed prior to the effective date for IFRS adoption, if the SEC were to adopt a full implementation date for IFRS that is not before January 1, 2015. Notwithstanding the preceding, the primary issue with IFRS is not the implementation period but rather the quality of the standards compared to existing U.S. GAAP. Accordingly, it is critical that the Insurance Contracts and Financial Instruments proposals, mentioned below, are "fixed" prior to their issuance inasmuch as they would not represent an improvement to current U.S. GAAP in their current form; and could be very damaging to the U.S. property-casualty insurance industry.

Allstate, as a listed company on the New York Stock Exchange ("NYSE") and Chicago Stock Exchange, reviewed the quantitative listing requirements for exchanges and believes the requirements should be revisited in light of changes to IFRS accounting and reporting. In addition, the NYSE requires one member of the Allstate audit committee to have accounting or related financial management expertise. Depending on the definition of an expert and the extent to which the audit committee member would be required to be familiar with IFRS, assuming IFRS is adopted, this would require us to re-evaluate our current compliance with this requirement.

Similar to other financial statement issuers, we are involved in monitoring the standard-setting activities of both the FASB and IASB and providing comments when considered necessary. We believe the number of critical projects being addressed and the related exposure drafts expected to be released by both the FASB and IASB over the next several months are excessive. Given the high volume of critical proposals expected, we are very concerned about the proper level of attention and due diligence financial statement users and issuers can reasonably apply when evaluating the exceedingly complex proposals. As a result, we are very concerned that the first milestone in the SEC IFRS Workplan (i.e., development and application of IFRS sufficient to support preparation of financial statements that are comprehensive, comparable and auditable) may be jeopardized. We recommend the rapid release and number of critical, complex exposure drafts be further modified to allow constituents more time to review, evaluate and comment on the proposals and for reasonably

comprehensive field testing to be completed and evaluated to validate the efficacy of the proposals.

Two of the critical insurance related joint projects are Financial Instruments and Insurance Contracts. We are very concerned about the current level of divergence in the guidance proposed by the two Boards and believe if either of the Board's proposals were adopted it would bring great harm to the global property-casualty industry as the proposals would significantly reduce the relevance, understandability and comparability of property-casualty insurer financial statements. Accordingly, we believe it is critical that the Financial Instruments Standard is converged and the proposed Insurance Standard is fixed prior to the SEC making any recommendations regarding the incorporation of IFRS into U.S. financial reporting.

Allstate, and many of our insurance company peers, supports a financial instrument classification and measurement model that is a mixed-attribute model utilizing three measurements and classifications (i.e., amortized cost, fair value through other comprehensive income, and fair value through net income). A measurement and classification model based on both the business strategy and business model best conveys the economics of the insurance business. Although Financial Instruments is a joint project for the Boards, current IFRS 9 and the recently released exposure draft from the FASB are very divergent. Convergence on these issues for financial services companies is critical. For your reference, we are attaching the Group of North American Insurance Enterprises' ("GNAIE") comment letter to the FASB on its Financial Instruments exposure draft. Allstate is a member of GNAIE and is supportive of the measurement and classification model detailed in the letter.

With regard to Insurance Contracts, Allstate, along with many of our peer companies, remains deeply concerned about many fundamental aspects of both the IASB Exposure Draft and the FASB Discussion Paper. We believe the unique attributes of life and non-life insurance contracts require separate measurement, presentation and disclosure models. The proposals introduce a current value-based model calibrated to the maximum amount an insurer would rationally pay to be relieved of its obligation under the insurance contract. This measurement would not reflect what the insurance company is expected to pay to fulfill its obligations under the contract and as a result the insurance industry remains very concerned about the decision usefulness of financial statements prepared when applying these complex models that do not reflect the economics of the business. Moreover, the proposals would be difficult to implement and as currently drafted would decrease the relevance, understandability and comparability of financial statements of property-casualty insurers. Accordingly, we believe resolving the Insurance Contracts related issues that exist are critical to IFRS readiness in the U.S.

Should final accounting guidance issued by the Boards result in financial statements that do not reasonably depict the economics of a company's business strategy and business model, we believe the standard setters and regulators, including the SEC, may need to allow the use of certain non-GAAP measures that provide financial statement users better information to evaluate the results of a business. In addition, should final accounting guidance impact the calculation of financial measures that have a direct link to investor's buy/sell/hold decisions, an expanded use of non-GAAP measurements may need to be allowed in order to facilitate the transition to newly defined measures based on IFRS standards.

Reponses to specific questions set forth in the Solicitation for Comment are provided in the attached Appendix. If the Board desires a further discussion of our views or would like to discuss other implications from the convergence efforts, please contact me at (847) 402-2213.

Sincerely,

Sam Pilch
Controller & Group Vice President
The Allstate Corporation

Appendix

Contractual Arrangements-Request for Comment:

To what extent and in what ways would incorporating IFRS into the financial reporting system for U.S. issuers be likely to affect the application, interpretation, or enforcement of contractual commercial arrangements such as financing agreements, trust indentures, merger agreements, executive employment agreements, stock incentive plans, leases, franchise agreements, royalty agreements, and preferred stock designations?

Response: Allstate reviewed its contractual commercial arrangements with unaffiliated third parties, including real estate and equipment lease agreements, credit facilities, vendor agreements, merger agreements and issued debt agreements. We identified that certain lease arrangements, issued debt agreements and credit facilities either reference U.S. GAAP reporting or reference various financial measures, such as debt to capital ratios, that are computed using U.S. GAAP measures. In addition, similar to other insurance companies, Allstate is a lender in many privately negotiated lending agreements (i.e., private placement debt instruments). These contracts contain certain financial covenants that are linked to current U.S. GAAP measurements. Given that we believe these references are fairly standard for other similar agreements, the adoption of IFRS in the U.S. would result in the need for the maintenance of an extra set of GAAP accounting records or a significant number of U.S. contractual commercial arrangements to be modified if IFRS differs significantly from U.S. GAAP. The modification process would require an education step for IFRS accounting and reporting as parties likely to be involved in the modification process in the U.S. may not be sufficiently familiar with the differences between IFRS and U.S. GAAP. Subsequently, negotiations between lenders and borrowers, or lessors and lessees, would need to be completed. Sufficient time would need to be provided to complete the required modifications when determining IFRS readiness for the U.S., as we expect the time needed for the modifications will be significant.

Due to the significant number of changes that have occurred in U.S. GAAP in recent years, we are aware that some privately negotiated contracts contain provisions for covenants to be measured using "frozen GAAP" (i.e., GAAP definitions that were in place when the contract was initially negotiated). If U.S. GAAP does convert to IFRS, many borrowers will likely be required to maintain an extra set of accounting records to accommodate the "frozen GAAP" agreed upon at inception of the contract. Otherwise, modifications may be required for these contracts in addition to those already mentioned.

Our executive incentive plans are linked to certain U.S. GAAP financial measures (e.g., bonus targets, performance metrics, etc.) that were initially set by taking into consideration the relationship of those U.S. GAAP measures to our company's long-term strategic objectives. If IFRS were adopted, we would expect to revisit those measures to confirm their continued alignment with strategic objectives. Should IFRS adoption result in a different

accounting treatment for certain of these compensation plans, we may also revisit plan designs.

What types of contractual commercial arrangements aside from those specifically identified in the previous question would likely be affected by the incorporation of IFRS into the financial reporting system for U.S. issuers, and in what ways?

Response: In addition to the privately placed debt instruments insurance companies invest in, which are discussed in the previous response, many insurance companies are parties to reinsurance arrangements that reference National Association of Insurance Commissioners (“NAIC”) statutory financial results and measures. The NAIC evaluates new U.S. GAAP accounting guidance when issued to determine if appropriate for statutory reporting. Should IFRS replace U.S. GAAP, the NAIC would need to decide whether to adopt certain provisions of IFRS for statutory accounting or retain U.S. GAAP; any changes could affect the company’s many insurance and reinsurance contracts or require the maintenance of an extra set of accounting records.

With respect to existing contractual commercial arrangements, would the incorporation of IFRS into the financial reporting system for U.S. issuers be treated differently as compared to how a change in an existing financial reporting standard under U.S. GAAP would be treated today? If so, how?

Response: We do not expect the adoption of IFRS to be treated any differently as compared to how a change in an existing financial reporting standard under U.S. GAAP is treated today. However, a full adoption of IFRS would have a more extensive impact on provisions of contractual arrangements and modifications in that it would be more wide-spread, requiring more time to address.

To the extent that incorporating IFRS into the financial reporting system for U.S. issuers would affect the application, interpretation, or enforcement of contractual commercial arrangements, how would parties to such arrangements most likely address such effects (e.g., by modifying the contract, or adopting multiple accounting systems)?

Response: As mentioned in previous responses, we would expect many modifications to existing contracts. In certain situations, however, depending on the maturity date of contractual arrangements such as credit facilities and debt contracts or the contractual end date of other contracts, modifications may not be needed for all existing contracts, as they may mature or expire before the initial effective date of adopting IFRS. As mentioned, with regard to private placement debt, certain contracts require “frozen GAAP” to be used as the measurement basis and, as a result, we do expect the borrower will be required to maintain a separate set of accounting records.

To what extent would any potential effects of incorporating IFRS into the financial reporting system for U.S. issuers on the application of contractual commercial arrangements likely be mitigated or otherwise affected by providing for a transition or

phase-in period for compliance with the incorporation of IFRS into the financial reporting system for U.S. issuers? What length of a transition or phase-in period would be necessary to reasonably mitigate the effects? Are there any other means by which such effects can be mitigated or avoided?

Response: Although a phase-in period may provide certain benefits to financial statement issuers including allowing more time for the modification of many contractual arrangements as they may be able to stagger modifications with various parties that are implementing IFRS on staggered dates, we are not supportive of a phase-in approach as we believe it would cause confusion for investors. See our response to the SEC's Solicitation for Comment File No. 4-607 as Allstate is also a large investor in the capital markets with an approximate \$100B investment portfolio. A phased-in approach could potentially be confusing to investors as some debt and equity issuers will be reporting using IFRS and others will be reporting using U.S. GAAP. Although investors currently accommodate different reporting bases, it could become more pronounced if a phased-in approach, or staggered approach, is followed for IFRS adoption. This would negatively impact comparability for investors making investing decisions.

We urge the Boards to provide ample time for implementation of IFRS if adopted. If the SEC announces an adoption date for U. S. issuers, IFRS should not continue to be significantly modified after the date of the announcement. Continuous changes in the guidance at the same time U.S. Issuers are implementing IFRS and modifying contractual arrangements will be extremely difficult (i.e., trying to hit a moving target) and will not allow companies to take advantage of the expected 2-3 years of implementation time to modify existing contractual arrangements. Notwithstanding the preceding, the primary issue with IFRS is not the implementation period but rather the quality of the standards compared to existing U.S. GAAP. Accordingly, it is critical that the previously mentioned Insurance Contracts and Financial Instruments proposals are "fixed" prior to their issuance inasmuch as they would not represent an improvement to current U.S. GAAP in their current form; and could be very damaging to the U.S. property-casualty insurance industry.

Corporate Governance: Stock Exchange Listing Requirements-Request for

Comment

To what extent and in what ways would incorporating IFRS into the financial reporting system for U.S. issuers likely affect compliance with corporate governance and related disclosure requirements applicable to U.S. issuers, such as stock exchange listing requirements relating to the composition and function of audit committees of the boards of directors and disclosure requirements regarding audit committee financial experts?

Response: As a NYSE and Chicago Stock Exchange listed company, there are certain listing requirements based on measures such as stockholder's equity, revenues, net income, net tangible assets and working capital that are directly linked to amounts on our Statement of

Income, Statement of Financial Position and Statement of Shareholder's Equity. In the event the related adoption of IFRS significantly re-defines how these amounts are measured, due to new accounting principles, we believe the stock exchanges should reasonably consider the related listing requirements. In addition, both the FASB and IASB are proposing changes to the format and content of financial statements in their joint Financial Statement Presentation project. To the extent the project results in a significantly modified presentation of financial results, we would expect the exchanges to re-evaluate listing requirements.

As a NYSE listed company, The Allstate Corporation is required to have at least one member of the audit committee who has accounting or related financial management expertise. Our current compliance with this requirement would be re-evaluated if IFRS is incorporated into U.S. financial reporting and the level of IFRS "expertise" would be evaluated for current audit committee members. In addition, The Allstate Corporation is required to disclose if its audit committee includes any member who is an "audit committee financial expert," which is defined in the SEC's rules with reference to U.S. GAAP. Assuming both the NYSE and SEC revised or reinterpreted their rules to use IFRS instead of U.S. GAAP and given that relatively few public company board members currently have IFRS expertise, there could be considerable pressure on U.S. companies to recruit audit committee members from a very small pool of qualified candidates.

Overall, as is mentioned in the question below, audit committee members will likely require a certain level of education related to IFRS differences from U.S. GAAP. We have already started that education process at Allstate. Should the two Boards continue to converge on the more significant accounting guidance, the amount of education needed may be reduced.

We understand that experienced professionals, including audit committee members, would likely need to enhance their knowledge of IFRS and develop further expertise, and we believe it would be important for audit committee members to do so in light of their responsibility for oversight of the preparation and audit of financial statements that are presented to U.S. investors. To what extent would current members of boards of directors likely have the education or experience needed to meet the requirements of the definition of "audit committee financial expert" or the stock exchange listing requirements related to accounting or financial management expertise following the incorporation of IFRS into the financial reporting system for U.S. issuers? Would there be adverse effects if an issuer were required to disclose that it does not have any audit committee financial experts while its audit committee members are in the process of obtaining the necessary expertise?

Response: Although we are educating our Audit Committee members on IFRS, we have yet to evaluate whether current audit committee members have IFRS expertise. We believe further guidance will be required from the SEC and the stock exchanges regarding their rules on accounting expertise and "audit committee financial expert" if the SEC incorporates IFRS into U.S. financial reporting.

To the extent that incorporating IFRS into the financial reporting system for U.S. issuers would adversely affect board members' ability to meet the requirements or result in disclosure that the issuer does not have an audit committee financial expert, how would issuers and individual directors most likely address such effects (e.g., by additional training)? To what extent and in what ways would such effects be likely to differ from similar effects in jurisdictions that have adopted, or are in the process of adopting, IFRS?

Response: Should there be a limited pool of qualified audit committee candidates with IFRS expertise, we believe additional education will be needed to enhance the IFRS knowledge for boards of all public companies. Allstate has already started this education process.

To what extent and in what ways would incorporating IFRS into the financial reporting system for U.S. issuers likely affect an issuer's ability to comply with quantitative securities exchange listing standards?

Response: See responses to prior questions. We believe listing requirements may require modification depending on the significance of differences between IFRS and U.S. GAAP.

To what extent would any potential adverse effects of incorporating IFRS into the U.S. financial reporting system on issuers' compliance with corporate governance and related disclosure requirements likely be mitigated or otherwise affected by providing for a transition or phase-in period for compliance with the incorporation of IFRS into the financial reporting system for U.S. issuers? What length of a transition or phase-in period would be necessary to reasonably mitigate the adverse effects? Are there any other means by which such effects can be mitigated or avoided?

Response: See previous responses. We do not believe a phase-in period will help companies in their goal of continuing to meet the requirement for an IFRS "expert" in their audit committees. Unless a company begins to address this requirement early, it may be at a disadvantage compared to other companies who are adopting IFRS earlier. The earlier adopters would have had to address this requirement and would have secured qualified individuals for service on audit committees earlier, thus limiting the pool of resources even further. We do, however, believe that a 2-3 year implementation period for IFRS adoption will allow sufficient time for IFRS education to occur.

To what extent would any potential adverse effects of incorporating IFRS into the U.S. financial reporting system on issuers' compliance with quantitative stock exchange listing standards likely be mitigated or otherwise affected by providing for a transition or phase-in period for compliance with the incorporation of IFRS into the financial reporting system for U.S. issuers? What length of a transition or phase-in period would be necessary to reasonably mitigate the adverse effects? Are there any other means by which such effects can be mitigated or avoided?

Response: We believe, although a phase-in period of IFRS may provide relief in modifying contractual arrangements, it would cause more confusion for investors. See responses to prior questions. Overall, we are not supportive of this approach.

Are there any corporate governance and related disclosure requirements other than those identified above that would be affected by incorporating IFRS into the financial reporting system for U.S. issuers?

Response: No additional items to note.

Statutory Distribution Restrictions and Other Legal Standards Tied to Financial

Reporting Standards-Request for Comment

To what extent and in what ways would incorporating IFRS into the financial reporting system for U.S. issuers likely affect the application of limits in state statutes on the ability of issuers to make distributions to holders of equity securities, either through dividends or similar distributions in respect of those securities, or to repurchase such securities?

Response: The Allstate Corporation is the holding company that makes dividend payments and repurchases shares of stock on behalf of Allstate. The Allstate Corporation, as a Delaware company, generally can only pay dividends out of surplus and can repurchase shares only when doing so does not impair capital. Should adoption of IFRS impact current capital or cumulative surplus, it could have an impact on our dividend paying and stock repurchase capacity. It depends on how significant the differences between IFRS and U.S. GAAP accounting principles are.

As a holding company with no significant business operations of its own, The Allstate Corporation relies on dividends from Allstate Insurance Company as one of the principal sources of cash to make distributions to its stockholder and to meet its obligations, including the payment of principal and interest on debt. Allstate Insurance Company is regulated as an insurance company in Illinois and its ability to pay dividends is restricted by Illinois law. The ability of Illinois insurance companies and insurance companies domiciled in other states to pay dividends may be affected if state insurance regulators adopt IFRS for insurance company statutory financial reporting. In Illinois and certain other states, the statutory dividend limitation is generally the greater of 10% of statutory surplus as of the preceding December 31 or net income for the year ending the preceding December 31, not to exceed unassigned surplus. Should IFRS be adopted on a statutory basis, depending on the significance of the differences between current statutory accounting principles and IFRS, this may have a direct impact on the dividend paying ability of insurance companies and thus an indirect impact on the ability of The Allstate Corporation and other insurance holding companies to make distributions to stockholders.

Are there any particular distribution statutes from any particular jurisdictions the application of which are especially likely to be affected by incorporating IFRS into the financial reporting system for U.S. issuers? Which statutes, and why?

Response: See prior response.

To the extent that incorporating IFRS into the financial reporting system for U.S. issuers would affect the application of statutes governing distributions to equity security holders, how would the jurisdictions affected (or issuers in such jurisdictions) most likely address such effects?

Response: To the extent that IFRS impacts statutory measures that have a direct or indirect impact on the dividend paying ability of state regulated insurance companies, the state insurance regulators, along with the various regulated insurance entities, will likely work together in adapting the financial measures to the new accounting principles. The ultimate decision making, however, will be made by the state insurance regulators.

To what extent would any potential effects of incorporating IFRS into the financial reporting system for U.S. issuers on the application of statutes governing distributions to equity security holders be avoided or minimized by state law permitting the board of directors to rely on reasonable valuation methods, rather than on financial statements, in determining whether a distribution is permissible (e.g., when transitioning to IFRS, if the value of an asset is determined to be lower using IFRS than it would be using the current standard in U.S. GAAP, would the board be able to make a determination that the value of the asset is higher than as calculated under IFRS)?

Responses: See response above. Overall, the limitations currently placed on Insurance Department regulated companies is very prescriptive and for capital limitations (i.e., Risk Based Capital) very formula driven. We believe the NAIC will want to re-visit these requirements as Risk-Based Capital, for example, is used by regulators to determine the level of oversight required. Should a different approach be considered, we believe the insurance regulators will likely work with its constituents with the final decisions being made by the regulators.

To what extent would any potential effects of incorporating IFRS into the financial reporting system for U.S. issuers on the application of statutory limits on distributions to equity security holders likely be mitigated or otherwise affected by providing for a transition or phase-in period for compliance with the incorporation of IFRS into the financial reporting system for U.S. issuers? What length of a transition or phase-in period would be necessary to reasonably mitigate the effects? Are there any other means by which such effects can be mitigated or avoided?

Response: We do not believe a phase-in period would be helpful. We believe Insurance regulated companies will desire that all companies are regulated using the same limitations as to not result in a competitive advantage for one versus the other.

To what extent and in what ways would incorporating IFRS into the financial reporting system for U.S. issuers likely affect the application of state statutes requiring a shareholder vote for a sale of "all or substantially all" of the issuer's property or assets? For example, would the determination of whether such a vote is required change as a result of a change in accounting standards?

Response: The Allstate Corporation is a Delaware corporation. We do not believe there would be any significant effect under Delaware law.

Are there any particular asset sale statutes from any particular jurisdictions the application of which is especially likely to be affected by incorporating IFRS into the financial reporting system for U.S. issuers? Which statutes, and why?

Response: We are not aware of any asset sales statutes that would be affected.

To the extent that incorporating IFRS into the financial reporting system for U.S. issuers would affect the application of statutes governing sales of assets, how would the jurisdictions affected (or issuers in such jurisdictions) most likely address such effects?

Response: See prior response.

To what extent would any potential effects of incorporating IFRS into the financial reporting system for U.S. issuers on the application of statutes governing sales of assets be avoided or minimized by state law permitting the board of directors to rely on reasonable valuation methods, rather than financial statements, in determining whether a shareholder vote is required to approve a sale of assets?

Response: See prior response.

To what extent are any potential effects of incorporating IFRS into the financial reporting system for U.S. issuers on the application of statutes governing sales of assets likely to be mitigated or otherwise affected by providing for a transition or phase-in period for compliance with the incorporation of IFRS into the financial reporting system for U.S. issuers? What length of a transition or phase-in period would be necessary to reasonably mitigate the effects? Are there any other means by which such effects can be mitigated or avoided?

Response: See prior response.

Are there any other state statutes the application of which is likely to be affected by incorporating IFRS into the financial reporting system for U.S. issuers?

Response: None that we are aware of.



August 31, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1810-100

Dear Mr. Golden,

The Group of North American Insurance Enterprises ("GNAIE")¹ is pleased to provide comments to the Board on its Proposed ASU designed to simplify existing accounting for financial instruments and hedging activities.

GNAIE supports the Board's objective of providing financial statement users with a more timely and representative description of an entity's involvement in financial instruments while reducing complexity in accounting for financial instruments. We believe the Board has made progress in accomplishing these objectives; however, the limitations inherent in the classification and measurement proposals, in addition to measurement principles currently being discussed for insurance contracts in the joint FASB/IASB Insurance Contracts project, may not provide investors in insurance companies more decision useful information. More specifically, income and capital measures monitored and analyzed by insurance company investors for purposes of making investing decisions would be significantly influenced by fair value movements that are expected to reverse over time and therefore will not be realized. To increase the decision usefulness of insurance company financial reports, we believe insurance companies should have the ability to align the measurement, classification and reporting of financial assets and liabilities with both the business strategy for the financial instruments and their business model.

We generally support the principle in the Exposure Draft (ED) that gains or losses expected to reverse in the context of the reporting entity's business strategy should not result in changes in fair value being recorded in net income. We believe the recognition of

¹ GNAIE is a trade organization comprised of leading insurance companies including life insurers, property and casualty insurers, and reinsurers in Bermuda, Canada and the United States. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations, and all are major participants in the US and emerging markets.

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unrealized periodic fluctuations in net income, however, would be more misleading to investors. At the same time, we are concerned that the business strategy criteria specified in the ED are too narrow, which will result in more fair value changes expected to reverse in the future being recorded in the income statement (i.e., recording of unrealized gains and losses would take place in the income statement).

Insurance companies' general business model is to underwrite and manage a variety of risks while concurrently managing asset portfolios designed to provide the necessary cash flows to settle insurance obligations as they arise. Although the business strategy for insurance companies is generally to hold investments for the collection of cash flows, there are a variety of circumstances that warrant a prudent level of asset selling that is consistent with the insurance business model. GNAIE recommends the criteria for allowing companies to classify, measure and report financial assets and liabilities on a basis other than fair value with fair value changes reported in net income ("FVNI") be expanded to allow for these prudent sales to occur without impacting the future ability to utilize an alternative measurement method.

The classification, measurement and reporting model GNAIE supports is one where three measurement methods are utilized (i.e., FVNI, fair value with changes in fair value reported in other-comprehensive income ("FVOCI"), and amortized cost ("AC")). In situations where an entity's business strategy is to realize through transfer or sale, short-term fair value changes in an instrument (e.g., a trading portfolio or derivatives that do not qualify for cash flow hedge accounting treatment) or the entity has chosen to measure the instrument at FVNI under a fair value option, it should be required to report such instruments as FVNI. However, we believe equity instruments not designated as trading or FVNI should be reported at FVOCI.

With regard to other financial instruments, GNAIE recommends either AC or FVOCI be used as the classification, measurement and reporting method for those instruments that meet the debt criteria and where the business strategy is to collect or pay contractual cash flows rather than sell the asset or liability to a third party. The determination of whether to measure financial instruments at FVOCI or AC would be based on the reporting entity's business model. In addition, we believe the Board should address the appropriate measurement basis for financial assets that are not traded in observable markets, including inactive, illiquid or disorderly markets as neither fair value nor AC may be an appropriate indicator of the cash flows the entity expects to receive.

With regard to deposit type contracts, investment contracts and a company's own issued debt, we believe AC (or account value for investment contracts) is the most appropriate measurement basis.

GNAIE does not support the severe restrictions to the use of equity method of accounting as proposed in the ED. We believe in circumstances where a reporting entity has significant influence over the operational decisions of an investee, that reporting entity's financial statements should reflect its share of the operational results of the investee. We also question an investor's ability to determine fair value within the current reporting



timeframe for investments in investees that do not provide timely fair value financial statements (e.g., private equity partnerships). Additionally, we note that criteria similar to the proposed guidance is not included in existing guidance under IFRS (nor any proposals) and incorporating this proposed criteria would create divergence in the FASB and IASB accounting guidance related to when equity method accounting should be applied.

We do not agree that an entire hybrid instrument should be accounted for at FVNI. GNAIE supports continuing to bifurcate embedded derivatives that are not clearly and closely related to the host and accounting for the embedded at FVNI. The remaining host, after bifurcation, would be evaluated using GNAIE's proposed classification, measurement and reporting model. We believe this will present financial instruments in a manner that is more consistent with the reporting entity's business strategy. We would, however, recommend the Board consider simplifying the interpretation of what is considered clearly and closely related. More specifically, in IFRS, the "clearly and closely" criteria is left to management judgment without detailed interpretations and complicated evaluations; we recommend a similar approach for GAAP.

We believe the existing impairment model for debt securities provides a solid foundation for determining expected cash flows, measuring impairment and conceptually could be applied to other financial assets, such as loans. While this methodology is currently applied on an individual security basis, a similar methodology could be applied to pools of similar instruments based on changes in expected cash flows.

While we agree with the use of expected cash flows to measure impairments of financial assets, we do not agree with certain aspects of the proposed impairment guidance. We believe the use of expected cash flows should be based on management's best estimate of cash flows, considering all relevant and reliable information, including information about future expected economic conditions and events in addition to historical trends. We disagree with the proposed guidance that limits an entity to only consider existing conditions and historical information when determining expected cash flows.

With respect to measuring impairment, we believe the changes in expected cash flows from origination, or purchase, is a more appropriate method to measure impairment and reflects an impairment within the statement of financial performance once an entity's estimate of expected cash flows decreases. We disagree with the proposed guidance that attempts to measure the amount of cash flows not expected to be collected over the life of the asset and does not focus on identifying decreases in expected cash flows from events that have or are expected to have occurred. Moreover, the proposed model ignores the economic substance of a transaction when an asset is originated or purchased. That is, there is typically no expectation of a credit loss over and above that amount which is priced into purchase yield on the instrument. The expected cash flows upon purchase or origination, which are implicit in the origination or purchase yield, should be the initial basis for an entity to assess whether there is an impairment and only changes from those original expected cash flows should result in an impairment.



We support the ability to evaluate impairment on an individual asset ("individual method") or a pool of similar assets ("pooled method"). However, we do not support the required use of the pooled method if an asset has already been individually evaluated for impairment and no impairment was determined to exist. As indicated above, we believe the pooled method could be modified to be similar to the existing impairment model for debt securities, which results in an impairment being recognized when adverse changes in the original expected cash flows, or most recent expected cash flows for financial assets with a previous credit impairment, occur. Improvements in the most recent expected cash flows should also result in the reversal of previously recorded impairments in the current period. In addition, we believe, based on current facts and circumstances, a reporting entity should have the ability to evaluate impairment on either a pooled or individual assets basis; this would allow reporting entities to change their impairment methodology as facts and circumstances change.

GNAIE is very supportive of the Board's efforts to simplify the hedge effectiveness requirements by replacing the "highly effective" requirement with "reasonably effective" and with more qualitative hedge effectiveness assessments. Consistent with these efforts, we also encourage the Board to consider revising the portfolio hedge requirements to accomplish the same simplification objective. Current U.S. GAAP for portfolio hedges is unnecessarily complex and operationally burdensome, which generally makes the accounting of portfolio hedges as accounting hedges unattainable. Simplifying existing requirements to prove hedge effectiveness for portfolio hedges by requiring that similar assets or liabilities that are included in a portfolio hedge are "reasonably similar" would allow expanded use of hedge accounting for economically effective portfolio hedging strategies.

Reponses to specific questions set forth in the Proposed ASU are provided in the attached Appendix. If the Board desires a further discussion of our views please contact Doug Barnert at (212) 480-0808.

Sincerely,

A handwritten signature in black ink, reading "Jerry de St. Paër". The signature is written in a cursive, flowing style.

Jerry de St. Paër
Executive Chairman



Appendix

Scope

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

We agree with the scope of financial instruments included in the proposed Update.

Question 3: The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit-type and investment contracts should be included in the scope? If not, why?

Given insurance company investment contracts and deposit-type contracts are considered financial instruments under current U.S. GAAP, we do not object to the inclusion of these contracts in the ED. However, we urge the Board to consider the scope of the Insurance Contracts project at the same time as it considers the scope of this ED to prevent instruments from being scoped into the financial instruments ED initially with the possibility of also being scoped into the Insurance Contracts project.

GNAIE believes that investment contracts issued by insurance companies and deposit-type instruments generated from insurance (e.g., high deductible, administrative service agreements, etc.) and reinsurance transactions should be reported at AC (or account value for investment contracts) as this is the amount at which the contracts will be fulfilled pursuant to their terms. In addition, for investment contracts, the underlying business strategy is to issue these contracts and to pay the account value to the policyholder at maturity or upon withdrawal, and not sell the instrument to a third party. For deposit-type instruments, AC (or account value for investment contracts) represents amounts expected to be paid or received from the contract and both investment and deposit-type contracts meet the business strategy objectives to report at AC.

In addition, given the business strategy of insurers is to settle investment contracts with policyholders instead of selling them to third parties and investment contracts do not trade in the market, continuously estimating their fair value would be challenged by a lack of market observable inputs. Accordingly, reflecting those instruments at fair value on the balance sheet (with periodic fair value changes in the income statement) would not provide decision useful information to investors, as it is not reflective of the cash flows the insurer expects to pay the policyholder. The only meaningful measurement is the amount at which the reporting entity expects to settle the contract (i.e., account value). Deposit-type instruments are similar to investment contracts in that they do not trade and the AC is the amount expected to be paid or received. As a result, AC is the only appropriate measurement.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

GNAIE does not agree with the proposed change to the criteria for equity method of accounting; please see our response provided to Question 8.

Initial Measurement

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

Measurement Attribute

We agree with the initial measurement alternatives. However, subsequent measurement criteria must be expanded to allow insurance companies to report financial instruments consistent with the manner they are managed (i.e., consistent with business strategies). Accordingly, if a financial instrument meets the debt criteria and the entity's business strategy is to collect contractual cash flows rather than sell the instrument, the instrument should qualify for either AC or FVOCI measurement.

The general business model of insurance companies is to underwrite and manage a variety of risks while concurrently managing asset portfolios designed to provide the necessary cash flow to settle insurance obligations as they arise. Asset portfolios are managed to support underlying liabilities and to achieve an appropriate return on capital. Changes in circumstances (e.g., revised liquidity expectations) may support a change in asset allocation. Accordingly, while the general business model for insurance companies may remain unchanged, a variety of circumstances may warrant a prudent level of asset selling consistent with the business strategy. GNAIE recommends the criteria for allowing companies to classify, measure and report financial assets and liabilities on a basis other than FVNI be expanded to allow for these changing circumstances. The requirement that sales be "occasional" or "infrequent" should be removed from the ED as this may not allow a future use of the AC and FVOCI measurement attribute when sales occur that are the result of prudent portfolio management. Notwithstanding the preceding, should an entity determine that its level of sales rises to a level that would be considered trading, FVNI measurement would be appropriate.

IFRS 9 Appendix B4.3 provides examples for when an entity may sell a financial asset. Those examples include: the financial asset no longer meets the entity's investment policy (e.g., the credit rating of the asset declines below that required by the entity's investment policy); an insurer adjusts its investment portfolio to reflect a change in expected duration (i.e., the expected timing of payouts); or an entity needs to fund capital expenditures. Insurance company specific examples that may warrant a change in either asset



allocation or expected liquidity and thus could result in sales include the need to fund unexpected policyholder benefits, the need to adjust the portfolio due to a change in expected duration and the financial assets no longer meeting the entity's investment policy. We would recommend the FASB ED provide examples similar to this as well as sales that an entity needs to make for tax purposes or sales required due to changes in regulatory requirements.

Equities

GNAIE believes equity instruments, not designated as trading or FVNI should be accounted for at FVOCI. Although fair value of equity instruments is a good indicator of the amount of cash flows expected based on current market conditions, reporting unrealized gains and losses through net income would create non-economic volatility (because unrealized gains and losses may never be realized monetarily) and thus may not provide investors an accurate indicator of the financial performance of the entity as these instruments are not held for the realization of short-term gains and losses and changes in values are not reflective of what the entity has realized or may realize through collection of cash flows. In other words, fluctuations related to unrealized gains and losses do not represent actual cash flows of the company and may reverse due to normal market fluctuations.

Other

With regard to other financial instruments that meet the debt criteria described in the ED, GNAIE recommends either AC or FVOCI be used if the business strategy is to collect or pay contractual cash flows rather than sell the asset or liability to a third party. The determination of whether to measure financial instruments at FVOCI or AC would be based on the reporting entity's business model.

Hybrids

With regard to hybrid instruments, GNAIE supports the continued use of current U.S. GAAP that would result in the bifurcation of embedded derivatives that are not clearly and closely related to the host. The remaining host would be evaluated for purposes of classification, measurement and reporting based on the criteria set forth above. The identification of embedded derivatives requiring bifurcation is an approach that is well tested as it has been in existence for an extended period of time. In addition, it would eliminate the need for an entity to classify all hybrid securities as FVNI when the embedded may be an insignificant amount and the business strategy for the company is to collect contractual cash flows for the instrument as a whole.

Equity Method of Accounting

GNAIE does not support the limitations placed on the use of equity method of accounting ("EMA") as proposed in the ED.



We believe the requirement for an investee's operations to be related to the investor's consolidated operations to apply EMA is arbitrary and will not provide decision useful information to investors. Current U.S. GAAP (i.e., FASB Codification Section 810, *Consolidation*) removed the "non-homogeneous" exception under ARB No. 51. The exception allowed a reporting entity to avoid consolidation if the operations of a majority owned subsidiary were not homogeneous to its own operations. As a result, we believe that related operations should not be a requirement for consolidation or for utilizing EMA as such a requirement would be inconsistent with the current guidance related to consolidation of either voting interest or variable interest entities, where the accounting guidance does not impose a similar requirement when determining whether an entity should be consolidated.

In addition, we believe as an investor's degree of influence over the operating decisions of the investee increases, so should the degree to which the operating results of the investee are reflected in the investor's own operating results? For example, on one end of a continuum, a passive investor, with either insignificant or no influence over the operating decisions of the investee, should report none of the investee operating results in its own financial statements. On the other end of the continuum, consistent with the variable interest entity consolidation guidance in ASC Topic 810, when the investor has the ability to direct the activities that are most significant to the economic results of the investee, and meets other criteria, the investee's results should be consolidated with the investor's operating results. Situations in the middle of the continuum (e.g., where the investor has significant influence over the operating decisions of the investee) we believe EMA is appropriate and consistent with current consolidation guidance. More specifically, as the ability to influence operational decisions of an investee increases, it is more appropriate to apply EMA to the investee's operating results as it provides the most decision useful information to investors.

Liabilities

With regard to financial liabilities, we do not agree with the proposals in the ED, as the restrictions around using AC would result in virtually all financial liabilities being measured at fair value for most financial services enterprises. As discussed in our response to Question 3, we believe investment contracts and deposit type contracts should be measured at AC (i.e., account value for investment contracts), as that is the amount the company is contractually obligated to pay its policyholders pursuant to the terms of the contracts. Similarly, we believe a reporting entity's own issued debt should be measured at AC, as again that is representative of the actual cash flows that will be used to repay the obligation pursuant to its terms. All other liabilities should follow the criteria proposed in *Measurement Attributes* section above to determine the proper classification, measurement and reporting method.

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to

something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

We do not agree that a significant difference between transaction price and fair value should be recognized in net income. This requires recognition of income or expense that was not earned and that will reverse over time (through the interest calculation). Moreover, we believe the transaction price is much more reliable than a calculated fair value, which introduces unnecessary subjectivity to a transaction.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

Yes, we believe a single measurement principle should be utilized regardless of whether changes in fair value are recognized in net income or other comprehensive income. We believe the initial measurement of a financial instrument should be at the transaction price, as it generally represents the best estimate of fair value as of that point in time.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

We agree that transaction fees and costs should be immediately expensed in net income for financial instruments accounted for at FVNI. The expense recognition occurs automatically upon subsequent measurement if, for example, a financial asset's original purchase price exceeds its fair value upon purchase due to transaction fees and costs. We also agree that transaction fees and costs related to instruments that utilize an effective yield (e.g., bonds, loans and certain liabilities) should be deferred and amortized as an adjustment to yield when the instrument is measured at FVOCI. In the proposed GNAIE classification and measurement model, equity instruments may also qualify to be measured at FVOCI. Transaction fees and costs for equity instruments should be expensed immediately as an effective yield is not utilized for income recognition.

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

We don't believe this is operational as fair value will not be able to be reliably measured and it should therefore be assumed that transaction price is fair value. We believe the initial measurement of a financial instrument should be the transaction price, as it generally represents the best estimate of fair value on the transaction date.

Subsequent Measurement

Question 13: The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

GNAIE does not believe the default measurement for financial instruments should be fair value as described in response to Question 8.

GNAIE proposes a measurement, classification and reporting model where both the business strategy for financial assets and liabilities and the reporting entity's business model are the key drivers in determining whether FVNI, FVOCI or AC will be used to measure financial assets or liabilities. In situations where the reporting entity's business strategy is to collect or pay contractual cash flows, rather than sell the asset or liability to a third party, either AC or FVOCI should be used. For those assets reported at AC, we do not believe the fair value of financial instruments should be disclosed on the face of the financial statements, but rather should be disclosed in the footnotes. We believe that when fair value is not representative of the cash flows the entity expects to collect or pay, based on its business model, presenting fair value amounts on the face of the financial statements, as opposed to in the footnotes, does not provide decision useful information to investors and may be misleading. In addition, the proposed requirement to provide reconciliations from AC to fair value, per paragraph 86 of the ED, would create unnecessary complexity in the financial statements.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

We agree with the proposed guidance and do not believe any other fair value changes should be recognized in net income for financial instruments measured at FVOCI. Given our proposed classification and measurement model could result in an increased use of



AC, we also believe the items mentioned should be reported in net income if the measurement basis is AC.

Question 15: Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?

Yes, subsequent measurement principles should be the same for both financial assets and financial liabilities, with the exception of the treatment of deposit type contracts, investment contracts and own issued debt, which should be measured at AC. Should the FASB decide not to allow AC as a measurement attribute, GNAIE does not believe FVOCI or FVNI represent appropriate measurement bases for most financial liabilities. The most significant financial liabilities held by insurance companies in the scope of the ED are deposit type contracts, investment contracts and a company's own issued debt. As mentioned in Question #8, we do not believe these instruments should be reported at fair value, as AC or account value better reflects the cash flows expected to be paid to settle these instruments. In addition, reporting changes in capital or net income, as a result of changing market conditions, when the company does not expect to realize those changes, would be misleading to investors.

Question 16: The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

Similar to the IASB, GNAIE believes reclassification (i.e., changes in measurement bases) should be allowed when the reporting entity's business strategy or business model for managing financial assets changes or possibly when associated asset markets become inactive, illiquid or disorderly. The IASB agreed with respondents to its financial instruments ED who noted that allowing reclassification ensures that financial statements faithfully represent an entity's business strategy related to financial instruments and the entity's business model at the reporting date. Based on the insurance company business model, we expect reclassifications to be "infrequent".

We noted the Board's concern included in BC105 regarding reclassifications potentially allowing an entity to manage earnings. Rather than prohibit reclassifications altogether, which limits a reporting entity from faithfully representing how those assets or liabilities are managed, the Board should consider limiting the financial statement impact from such reclassifications (e.g., reclassification from FVOCI to FVNI should not result in immediate recognition of cumulative gains and losses in FVNI).

Question 18: Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying



changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?

We agree that a financial liability should be permitted to be measured at AC if it meets the criteria recognizing qualifying changes in fair value in OCI. However, we do not believe the specific mismatch requirement as proposed in the ED is needed if the GNAIE proposed model is adopted. To provide the opportunity to simplify, we recommend both financial assets and financial liabilities use the same classification and measurement model, with the exception of deposit type contracts, investment contracts and own issued debt.

Question 20: Do you agree that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?

GNAIE does not agree that the valuation allowance on deferred tax assets ("DTAs") related to debt instruments measured at FVOCI should be addressed in this ED; rather, it should be addressed separately.

We do, however, believe that reporting entities should continue to have the option to use the hold to recovery tax planning strategy and continue to consider the expected reversal of the related unrealized losses as positive evidence of future taxable income. Should final guidance result in the elimination of the hold to recovery tax planning strategy, insurance company capital positions could be significantly impacted by unrealized losses on debt securities existing on the adoption date. We believe this impact would be inappropriate to recognize and confusing to investors as the potential impact to capital would relate to DTAs associated with losses that have not been realized and are not expected to be realized in the future.

Question 21: The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer's perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principal will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

We do not believe convertible debt should automatically be reported and measured at FVNI. See answers to prior questions related to hybrid instruments and also financial liabilities.

Question 28: Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?

We believe the proposed criteria are operational, however, as worded we believe auditors/preparers will interpret the ED to be a de facto held to maturity standard. Please see our response under Question 8 for a discussion of the factors and criteria we believe are appropriate.

Question 29: Do you believe that measuring financial liabilities at fair value is operational? If not, why?

We agree that measuring financial liabilities at fair value is generally operational. However, we do not agree that liabilities such as deposit type contracts, investment contracts and a company's own issued debt should be measured at fair value. Please refer to our commentary in response to Questions 3 and 8 for our justification and recommended measurement bases.

Question 30: Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?

We believe the proposed criteria are operational, however, as mentioned in responses to other questions, we do not agree with the criteria.

Presentation

Question 32: For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity's credit standing (excluding changes in the price of credit) is appropriate, or do you believe that it is more appropriate to recognize the changes in an entity's credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?

GNAIE believes financial liabilities should be recorded at amortized cost; please refer to our response to Question 8.

Question 33: Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2



for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.

See response to question 32.

Question 34: The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities within an entity's industry, or should some other index, such as all entities in the market of a similar size or all entities in the industry of a similar size, be used? If so, please explain why another index would better measure the change in the price of credit.

See response to question 32.

Credit Impairment

Question 37: Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?

We believe that a more principles-based objective could be described, as indicated below, and should not introduce limitations, such as those in the proposed guidance related to future events and economic conditions:

The objective of the guidance related to credit impairment is to establish a model for recognition and measurement of credit impairment of financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income or financial assets measured at amortized cost, on the basis of an entity's expectations about the collectability of cash flows, including the determination of cash flows not expected to be collected, based on the entity's best estimate. ~~An entity's expectations about collectability of cash flows shall include all available information relating to past events and existing conditions but shall not consider potential future events beyond the reporting date.~~

The proposed guidance that would limit the consideration of future events and economic conditions is not consistent with the impairment guidance recently issued in 2009 for debt securities, which is accepted as an appropriate model to ensure proper recognition of impairment based on expected cash flows. We urge the Board to use the same concepts that are currently being applied for impairment of debt securities (best estimate of cash flows) as the foundation for the model to be applied to all financial assets subject to the impairment guidance. The proposed guidance for impairment should be amended to

require an entity to consider all relevant and available information, which would include both positive and negative information regarding future economic conditions and events, in determining an entity's best estimate of expected cash flows. If future economic conditions and events are not allowed to be considered, there could be additional credit losses that are expected to occur (e.g., as a result of expected worsening of future economic conditions) that would not be recognized as an impairment under the proposed guidance. If the proposed impairment model remains unchanged, an entity may need to determine expected cash flows using two different methods, one to comply with the proposed impairment guidance and another (for risk management purposes) to reflect management's real expectations of future cash flows without any of the restrictions from the accounting guidance.

Additionally, we suggest modifying the objective (as shown above) to indicate that financial assets that are classified as FVOCI or AC should be subject to the impairment model; which would align the objective with the proposed GNAIE model for classification and measurement discussed in our response to Question 8. Despite the classification of financial assets outside of FVNI being limited to assets where the business strategy is to collect cash flows, we believe an "intent to sell" criteria should be added to the list of factors in paragraph 44 of the proposed guidance. Adding this criteria to the proposed guidance would ensure consistent application when developing an entity's expected cash flows, which should consider whether a decision to sell has been made at an amount that is below a financial asset's amortized cost (carrying value). We believe including this language would not result in a tainting notion for classification and measurement of an asset but, instead, would further substantiate that there is an expectation that some sales may occur for a financial asset that is classified outside of FVNI and that there is no tainting notion in the proposed guidance.

Given the GNAIE model proposed for classification and measurement of equity securities that may be classified as FVOCI, we would also suggest adding clarifying language in the proposed guidance to specify that an entity's best estimate of cash flows for equity securities should consider whether recovery of the cost basis will occur in a reasonable time period, and an impairment should be recorded when it is probable that the cost basis will not be recovered within a reasonable time period.

Question 38: The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s). The IASB Exposure Draft, *Financial Instruments: Amortised Cost and Impairment* (Exposure Draft on impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an

impairment gain or loss. Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

We do not agree with either approach described in the proposed guidance issued by the FASB or IASB. Under both proposed impairment models, there is a presumption that a financial asset is originated or purchased when there is an *expected* loss. While there may be historical loss rates or other information that indicate a type of asset or asset class may incur credit losses, we believe these losses are not *expected* but rather are recognized as an indicator of *possible* loss. Despite the existence of information that would indicate a loss is possible, an entity would purchase or originate the asset with an effective return that compensates the entity for the relative risk. The existence of a possible loss does not necessarily result in an adjustment to an entity's cash flow expectations. The proposed guidance by both Board's appears to assume these *possible* losses represent the entity's expectations and therefore should be reflected in the evaluation of an impairment (whether recognized initially or as a reduction in interest income). We believe a more appropriate model would be to consider changes in the original (at inception/purchase) expected cash flows, similar to the current impairment model under U.S. GAAP for debt securities. Changes in expected future cash flows will be caused by current conditions and events that have occurred or are expected to occur as related to the financial instrument.

The application of the FASB's proposed impairment model would result in an impairment being recorded in net income upon origination, or purchase, when applying the pooled impairment methodology that would not result if the financial assets are evaluated on an individual instrument basis. We do not believe it is appropriate to recognize a credit impairment in net income upon origination, or purchase, of a financial asset regardless of the impairment model applied. To recognize an impairment upon purchase, or origination, would be inappropriate, as it would ignore the substance of a contemporaneous third-party transaction, which is that the transaction would not have occurred if the acquirer expected an immediate loss that was not contemplated in the purchase yield. Under the proposed guidance, this initial impairment would indicate the financial asset was not originated or purchased at fair value, which again is inconsistent with the substance of the transaction. We would urge the Board to revise the proposed guidance to be similar to the impairment methodology in current U.S. GAAP for debt securities, whereby an impairment only results upon an adverse change in expected cash flows and would not be recorded upon purchase or origination.

See our response to Question 40 for additional thoughts on how to apply the pooled impairment methodology.

To eliminate the operational costs and complexities associated with using an allowance account when evaluating an asset individually, we would suggest a method that would adjust the underlying amortized cost basis of a financial asset to record the individual impairment loss. Current systems used for debt securities (which we believe would likely be evaluated individually) to calculate interest income and amortized cost may not have the capabilities to incorporate an allowance account to then reflect the appropriate yield based on the net asset (amortized cost less allowance). However, for assets evaluated as a pool, the use of an allowance account may provide more useful information to users as it would represent impairment losses on a group of homogeneous instruments and would not be identifiable, or allocated, to each instrument in the pool. The allowance account should not impact the income recognition related to these assets given the lack of specific information indicating the loss for each individual asset in the pool and the expected impact on investment income for each asset in the pool. According, we would propose the use of an allowance account for assets evaluated as a pool where the interest income recognition is not impacted. However, if the asset is individually impaired where more specific estimates of cash flows are evaluated, it would enable the use of the effective interest rate for both impairment and income recognition.

Question 39: Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?

We agree that these factors, with the exception of foreign exchange rates in certain circumstances, should not result in the recognition of a credit impairment.

Despite our agreement with excluding these factors, we recognize there are additional operational complexities that will affect many entities related to prepayments. The proposed guidance appears to require an entity to determine the current effective interest rate ("EIR") based on the current prepayment expectation for each period and then use this adjusted EIR to discount the cash flows expected to be collected to determine the amount of any credit impairment. We believe this additional complexity would result in significant operational costs and challenges. We would suggest including a practical expedient when determining impairment based on changes in expected cash flows, which may include prepayments, and require disclosure for how changes in prepayments are considered when determining impairment.

In situations where a reporting entity either has the intent to sell or is, for example, expecting to receive cash flows in the near-term associated with a foreign bond (i.e., upon maturity), it should evaluate whether or not foreign exchange rate losses will be realized. In those circumstances, the bond may be considered impaired and an impairment loss recognized. This is consistent with the model GNAIE has set forth throughout this comment letter (i.e., if expected future cash flows have decreased since origination or purchase, the instrument may be impaired).

Question 40: For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?

We agree that the proposed guidance should not specify a particular methodology for determining historical loss rate. Additionally, while we believe that an entity may choose to evaluate financial assets for impairment under either an individual or pooled basis, the proposed guidance for the pooled method should not require the use of historical loss rates. Similar to our response to Question 38, we believe the proposed impairment methodology should be revised to be similar to the current impairment model under U.S. GAAP for debt securities, where an impairment is based on adverse changes from the original expected cash flows. We believe a similar methodology could still be applied to pools of similar instruments with the objective being to measure changes in expected cash flows.

The use of historical loss rates for evaluating a pool of financial assets for impairment should not be specifically emphasized when describing the methodology for evaluating impairments under the pooled method. While we expect the historical loss rates will be considered by many entities when determining the impairment under the pooled method, the proposed guidance should not be prescriptive with respect to utilizing historical loss rates. We suggest that the proposed guidance only refer to use of historical loss rates as one example of an acceptable method and use more general references on how to determine impairment on a pooled basis.

Similar to our comments on the inability to consider future economic conditions or events mentioned in our response to Question 38, we believe an entity should determine impairment based on historical, current, and expected future conditions based on management's best estimate under both the individual and pooled methods.

The FASB's proposed impairment guidance does not appear to discuss how an entity should consider how assets may be evaluated differently from period to period (individual vs. pooled basis) and how to consider these changes. Without additional clarification, there could be inconsistent application of the pooled method for determining impairment. GNAIE believes the impairment method (individual vs. pooled basis) can change based on changing facts and circumstances. Reporting entities should have the option to choose one or another depending on current conditions, although changes would be infrequent and should be supportable with changing facts and circumstances. For example, in poor financial markets, the company may choose individual impairment analysis be completed as close monitoring at an individual instrument level may be warranted. However, should the market improve significantly, the reporting entity may choose to use a pooled methodology as it would reduce the operational burden when losses are expected to be minimal.



For collateral dependent financial assets, the current wording of the proposed guidance is unclear whether this practical expedient would only apply to financial assets that are in or near foreclosure or if the asset simply needs to be evaluated individually. Assuming that the asset simply needs to be evaluated individually, the application of this practical expedient for collateral dependent financial assets would likely not result in certain loans or other financial assets (such as commercial mortgage loans) being impaired at, or near, origination, which seems to be inconsistent with intent of the proposed guidance related to the initial recognition of expected credit losses for originated assets as described in Question 39. While we agree with the application of this practical expedient, we believe the proposed guidance should be clarified to discuss that this practical expedient can be applied to a collateral dependent asset at any time.

Additionally, we suggest revising the practical expedient guidance to be applicable for all financial assets subject to the impairment guidance and only require impairment analysis if the fair value of the financial asset, or the underlying collateral for collateral dependent loans, is less than amortized cost. This use of a practical expedient for when fair value is above amortized cost – which is consistent with the existing accounting for the first step of determining an impairment for debt securities – would alleviate operational costs on preparers to reduce the population of assets that would be evaluated for impairment (limit the additional analysis required). There is not sufficient justification for only applying the practical expedient to collateral dependent financial assets and not all financial assets since the benefits noted in the basis for conclusion (BC188) would exist under a more general practical expedient. While we recognize the Board's justification for no longer including a comparison of fair value to amortized cost (paragraph BC188), there could be similar situations where the collateral value exceeds amortized cost and would result in no impairment despite the decrease in expected cash flows as a result of credit (for example, low interest rates could result in a higher collateral fair value).

Question 41: Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?

We agree that an increase in expected cash flows above the originally expected cash flows should result in an adjustment to the effective interest rate. If an entity determines that a previously impaired asset's expected cash flows increased in a subsequent period, a reversal of the impairment (up to the previously impaired amount) should be recorded in net income during the current period.

Question 42: If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that a credit impairment exists. The amount of the credit impairment, if any, would be measured



by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?

We believe the wording in the ED that requires an entity to consider the pooled method to determine whether a credit impairment exists should be more principles-based and should not be an explicit requirement within the accounting guidance. In certain situations, such as corporate debt securities, an evaluation of the individual securities may indicate no credit impairment exists. However, the requirement to determine whether the pooled method would indicate a credit impairment exists may result in an impairment being recorded as a result of historical experience. We believe it would be difficult for entities to produce sufficient evidence to overcome this historical loss experience and the requirement to consider the pooled method would result in recognition of a credit impairment even when the entity does not believe a credit impairment exists for individual assets.

We believe the ED should not include an explicit requirement to consider the pooled method and should modify the wording to indicate entities may consider either method and apply management's judgment to determine which method should be utilized. Additionally, we believe the disclosure of the method used for different financial assets and the reasons for utilizing such method would be necessary to ensure sufficient transparency in how management's judgment was applied.

With respect to the use of historical loss rates and the overall measurement of impairment, see our responses to Questions 38 and 40 for our views on these aspects of the proposed guidance.

Question 46: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectability of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on Impairment proposes an expected loss approach and would require an entity to estimate credit losses on basis of probability-weighted possible outcomes. Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?

We disagree with excluding forecasted future events or economic conditions when developing an expectation of future cash flows. Ignoring future events or conditions would



be inconsistent with the measurement of financial assets fair value, which incorporates future events and conditions. Additionally, there are several areas of recent accounting guidance or proposals where future events and conditions are required to be considered (e.g., fair value), or are expected to be considered (i.e., recent discussions on Insurance Contracts). Accordingly, we do not believe there is sufficient justification on why the model for impairments of financial assets should differ from other existing measurement concepts or those currently being discussed in other joint projects, when developing expected future cash flows and how changes in those amounts impact net income.

Additionally, the current impairment guidance under U.S. GAAP for debt securities, which was just issued in the last 18 months, should be used as the basis for the proposed impairment guidance. This recently issued guidance includes the consideration of future event and economic conditions in developing expected future cash flows and is well tested and proven to be an appropriate model and is operational.

While we believe expected future cash flows should consider future events and economic conditions, we do not agree with the probability-weighted approach proposed by the IASB. We believe the use of management's best estimate of expected cash flows, including all relevant and reliable information relating to future economic conditions and events, should be the basis for determining whether an impairment of a financial asset exists and would be consistent with other similar accounting guidance where the use of expected future cash flows are, or may be, utilized (fair value and recent discussions on insurance contracts). As stated in our responses to other impairment questions, we would recommend that impairment be measured based on adverse changes in the originally expected cash flows and not based on cash flows not expected to be collected (as outlined in the proposed guidance). A similar approach to the current U.S. GAAP guidance for impairment of debt securities could be applied to other financial assets, such as loans, and should be based on adverse changes in expected cash flows. We believe this type of approach could also be applied on a pooled basis to help alleviate operational concerns of projecting expected future cash flows for each individual asset.

Lastly, when considering historical experience and current conditions as described in the FASB's proposed guidance, one may conclude that the current conditions may reflect a particular point in a cycle and therefore would use historical experience to determine the expected future cash flows based on reverting back to historical levels over time. In this instance, the prohibition of considering future events and economic conditions could create inconsistent application by entities depending on their interpretation of the wording in the accounting guidance.

Question 47: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Would such an approach result in a significant change in practice (that is, do historical loss rates typically reflect cash flows that the entity



does not expect to collect over the life of the financial assets in the pool or some shorter period)?

For insurance company investments in debt securities, the proposed pooled method would result in a significant change in practice. With that said, we acknowledge the comments in paragraph BC181 of the proposal that states debt securities would most often be evaluated individually given the unique risk characteristics. Assuming that the application of the proposed guidance resulted in assessing debt securities on an individual basis with no requirement to apply the pooled method, there should be no impact on debt securities as a result of the proposed guidance for pools of financial assets. However, if the pooled method is required to be applied to debt securities (even after an individual assessment indicates there is no impairment), the proposed guidance would represent a significant change in practice for debt securities. Regardless of which method is applied or whether the pooled method is required, GNAIE would also be concerned that the change in wording under the proposed guidance (cash flows not expected to be collected) could result in a significant change in application from the existing impairment guidance for debt securities (focused on adverse changes in cash flows).

As stated in our response to Question 42, we believe an entity should not be explicitly required to determine whether the pooled method would indicate an impairment exists for financial assets that are evaluated individually. Absent the requirement in the ED to use the pooled method and make a determination of impairment, entities would be allowed to determine whether certain debt securities should be evaluated individually or group similar assets into a pool when evaluating impairment.

Insurance company investments in loans sometimes are evaluated in a similar manner as described under the pooled basis when an individual impairment is not present. However, the methodology used today may not necessarily be based on historical loss rates and may look to expected losses over a near term projection period and not necessarily over the entire life of the loan, as would be the case under the proposed guidance. The application of the proposed guidance would likely result in higher allowances for loans when compared to the typical application of existing impairment guidance for loans that are not individually deemed impaired. We believe the proposed guidance should not attempt to measure impairment as the expected loss over the life of the instrument but instead should measure impairment based on adverse changes in the originally expected cash flows, similar to the impairment methodology under U.S. GAAP for debt securities.

Interest Income

Question 48: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?



We agree that the recognition of interest income should be affected by the recognition or reversal of credit impairments as described in the proposed guidance for assets evaluated individually for impairment. However, we do not believe the interest income recognition should be impacted when an asset is evaluated for impairment as a pool since there is insufficient information that would indicate that a portion of the cash flows may not be received for any individual asset evaluated as a part of the pool.

Assets Evaluated Individually For Impairment

The proposed guidance is similar to existing income recognition model used for debt securities where the EIR generally represents the effective yield of the instrument at the time of purchase based on the originally expected cash flows. We believe the existing model for debt securities provides an accurate presentation of interest income based on an entity's income expectation upon purchase of the security and should result in a lower interest income being recognized when a credit impairment occurs since an entity is no longer expecting to receive a portion of the principal balance and therefore should not reflect the interest income on those cash flows that are no longer expected to be collected.

We recognize that the interest income model described above (for assets evaluated individually) for determining the EIR will generally result in a constant percentage of interest income being recognized compared to the carrying value of the financial asset. While some may contend this presentation leads to overstating interest income, we do not believe this would be case since the carrying value of the asset would be reduced for impairments that occur and would therefore result in a lower nominal amount of interest income. The EIR should represent the yield expected by an entity upon purchase and could provide information that could be compared between entities to evaluate the relative risk of a company's financial assets in combination with impairments that have been recognized.

Assets Evaluated As A Pool For Impairment

For assets evaluated for impairment as a pool, we would propose an interest income recognition model that would be based on the amortized cost of the asset and would not apply to the carrying value of the asset net of any valuation allowance. If the asset is not evaluated individually, rather in a pool, there is insufficient evidence to suggest that a portion of the amortized cost for each asset evaluated in the pool is not recoverable (i.e., cash flows for each individual asset are not separately evaluated). Accordingly, we believe it would be appropriate to have a different interest income recognition model for these assets when compared to assets that are evaluated individually for impairment. Additionally, we noted the guidance related to when an asset should no longer accrue interest (negative yield) is unclear in the proposed guidance. The proposed guidance for when an entity would no longer recognize interest income is not necessary and could be eliminated to reduce the complexity and simplify the proposed guidance. If the impairment methodology described above is utilized and results in the carrying value being reduced



as impairments are recorded, then interest income would continue to decrease as expected cash flows decrease and, therefore, would not result in the overstatement of interest income.

Question 49: Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?

We do not agree that the difference between the contractual interest and interest accrued using the EIR should represent a change in the allowance for credit losses. We believe the allowance for credit losses (if the proposed guidance retains this concept) should only represent impairment charges that have been recorded in net income and should only be changed when impairment charges/reversals are recorded in net income. As stated in our response to Question 38, we recommend adjusting the amortized cost of a financial asset when recognizing an impairment on an individual basis and believe the use of an allowance account should not be included in the proposed guidance. In a situation where contractual interest exceeds the interest income accrued using the EIR (regardless of whether the allowance account is retained), we believe the amortized cost of the asset should be adjusted similar to the recognition of a premium paid on an asset where the premium is amortized over the asset's expected life. We believe the approach described in the previous sentence is similar to the model currently used for debt securities and could be applied to all financial assets.

Question 50: The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?

We believe the interest income recognition guidance should be similar for all financial assets to provide the most comparable information between entities regardless of the classification and measurement of an entity's assets. While we recognize that management judgment is involved when determining expected cash flows that could impact the comparability of these amounts, the absence of similar interest income recognition guidance would make it more difficult to compare interest income, or effective yields, across entities when the classification and measurement basis could be different.

Question 51: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?

The proposed guidance should include an example to demonstrate when the effective interest rate of an asset is expected to change and how those changes would impact the discount rate used to determine the present value of expected cash flows used for impairment testing. More specifically, the proposed guidance should include an example demonstrating how the change in prepayment rates would impact the effective interest rate used to recognize income and the discount rate used to determine the present value of cash flows to measure impairment.

Additionally, we also believe an example for an asset that is purchased with a credit loss where there is a decrease in the originally expected credit loss to ensure appropriate understanding of the proposed guidance and when adjustments should be made against the allowance as compared to the effective interest rate.

Hedge Accounting

Question 56: Do you believe that modifying the effectiveness threshold from *highly effective* to *reasonably effective* is appropriate? Why or why not?

GNAIE agrees with the modifications proposed in the ED related to the effectiveness threshold. However, as mentioned previously, we believe, consistent with the objectives to simplify hedge accounting, the Board should also consider simplifying the requirements to support hedge accounting for portfolio hedges. We also believe the Board should consider providing more principles based guidance in determining if an embedded derivative is considered to not be clearly and closely related.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?

GNAIE supports the modifications to the application and administration of hedge accounting proposed in the ED.

Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?

GNAIE supports the modifications to the application and administration of hedge accounting proposed in the ED.

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?



GNAIE supports the modifications to the application and administration of hedge accounting proposed in the ED.

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

GNAIE supports the modifications to the application and administration of hedge accounting proposed in the ED.

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

GNAIE supports the modifications to the application and administration of hedge accounting proposed in the ED.

Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?

GNAIE supports the modifications to the application and administration of hedge accounting proposed in the ED.

Disclosures

Question 65: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?

GNAIE agrees with the proposed disclosure requirements.

Effective Date and Transition

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

GNAIE agrees with the transition provision in the ED. However, we believe it would be helpful to provide transition guidance as it relates to the documentation of existing hedges upon adoption of the updated accounting guidance. Current hedge documentation may specifically denote the use of regression analysis to prove that the hedge is still highly effective, and may specify when a hedge relationship no longer exists (for example, when



the regression falls below 80). Absent transition provisions that allow updates to the documentation, an entity may still be required to perform regression testing as specified in their current hedging documentation and would not be able to apply the reasonably effectiveness criteria unless the hedge was de-designated prior to adopting the proposed guidance and re-designated under new documentation upon adoption of the proposed guidance.

Question 69: Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than \$1 billion in total consolidated assets? If not, why?

GNAIE is concerned with this proposed delayed effective date based on comments in the basis of conclusions paragraph 252. Paragraph 252 mentions that this deferral would apply to over 90% of banks and credit unions in the United States. As it appears that banks are the intended focus of the proposed accounting standard, we agree with Ms. Seidman and Mr. Smith in that this exclusion calls into question the cost-benefit of the model.

Question 70: How much time do you believe is needed to implement the proposed guidance?

We believe it is possible to implement the proposed guidance by January 1, 2013, the date provided for operational questions in the ED. However, we would prefer the effective date aligned with the effective date of the anticipated Insurance Contracts Discussion Paper.

Question 71: Do you believe the proposed transition provision is operational? If not, why?

Yes, we believe the proposed transition provision is operational.

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