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September 7, 2010

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

Re: File Reference No. 1830-100 – Proposed Accounting Standards Update – Fair Value Measurements and Disclosures (Topic 820)

Dear Mr. Golden:

The American Council of Life Insurers (“ACLI”) is a trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry within the United States.

The ACLI supports the adoption of joint Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board (“IASB”) high-quality, robust accounting standards that are decision-useful, reliable, and relevant; present financial information in a manner that is reflective of the business operations of an entity; and transparently provide information. The ACLI appreciates the opportunity to comment on the FASB exposure draft of the Proposed Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820)* (“Proposed Update”). Our comments include matters related to the standard-setting process and to the substance of the Proposed Update itself.

#### **Standard-Setting Process**

The Proposed Update is one of a series of actions that the FASB and IASB are taking to improve and converge the accounting requirements for fair value measurements. This is an important and substantial undertaking that is a direct result of the recommendations of the G20 leaders and other international bodies to revise guidance on financial instruments in response to the global financial crisis.

Meanwhile, with the goal of converging the standards, the IASB is likewise reconsidering its guidance on fair value measurements under a similarly accelerated process, albeit with a somewhat different timetable. While it may not be uncommon for the IASB and FASB to deliberate separately on joint projects and then subsequently reconcile any differences in their technical decisions, differences between IASB and FASB positions remain related to “day 1” gain recognition and the use of Net Asset Value. The potential for differences raises the profile and importance of this project for market participants and creates uncertainty about whether the

IASB and FASB standards on fair value measurements will ultimately be converged and fulfill the ultimate goal of the joint projects. As these projects are being developed and discussed within similar time frames, we believe that this is the opportune time to address reconciliation issues between the FASB and IASB. We respectfully urge the IASB and FASB to work together to reconcile their positions before finalizing the proposed new standards on fair value measurements.

### **Substance of the Proposed Update**

The proposed measurement uncertainty analysis for Level 3 measurements would be very costly for financial statement preparers and would be misleading to financial statement users. We believe that the current disclosure requirements, which do not require the use of a measurement uncertainty analysis, are adequate and fully disclose the risk and exposure each company has to fair value measurements. We believe that the proposed measurement uncertainty analysis is extremely subjective and does not create consistency or comparability between companies. Further, as fair value measurements represent management's best estimate of fair value given the facts and circumstances, we believe that this is the only appropriate measure to disclose. Disclosing other "possible" fair value measurements would be misleading to the users of the financial statements. For these primary reasons, the proposed measurement uncertainty analysis would produce information that would be confusing and misleading to the financial statement users, rather than clarifying the risk and exposure a company has to fair value measurements. This is contrary to one of the overall goals of the convergence project.

### **Reasonable Alternative Inputs**

For each class of fair value measurements using significant unobservable inputs (Level 3 of the fair value hierarchy), the Proposed Update requires that "if changing one or more of the unobservable inputs used in a fair value measurement to a different amount that could have reasonably been used in the circumstances would have resulted in a significantly higher or lower fair value measurement," a company should disclose the effect of using those different amounts and how it calculated that effect.

The phrase "could have reasonably been used" is not defined in the Proposed Update and could lead to an extremely broad range of results that could be applied. This would lead to inconsistent application among companies and therefore significantly reduce comparability. Due to differences in fair value models and unobservable inputs that can be used by companies, this would further create issues with consistency and comparability from company to company. As a result, the ability to interpret and compare results will be greatly diminished. These inconsistencies appear to conflict with the FASB's overall goal of increased clarity and transparency for the users of the financial statements.

If the FASB continues to feel that the measurement uncertainty analysis is valuable to the financial statement users, we believe that increased qualitative disclosures are a more effective means to achieve similar results as the measurement uncertainty analysis. Given the estimation involved with these valuations, qualitative disclosures could address the risk and exposure to these estimates.

### **Correlation of Inputs**

The Proposed Update requires that a reporting entity shall take into account the effect of correlation between unobservable inputs if that correlation is relevant when estimating the effect on the fair value measurement of using those different amounts. Level 3 fair value

measurements may include many unobservable inputs, which may be independent or derived from other inputs. The unobservable inputs could include: prepayment speeds, probability of default, loss severity, yield, interest rates, home price assumptions, geographic location, collateral subordination, credit classification, etc. As a result, these inputs could change independently, be correlated or cross correlated.

One may argue that disaggregation is beneficial; however, we believe that the disaggregation of significant inputs will lead to meaningless and incomparable information. Correlations are not static, and the more unobservable inputs, the more complicated the calculation gets. The number of combinations that would have to be modeled becomes potentially endless, and the range of valuation results becomes so wide as to be meaningless. At a more disaggregated level, it is significantly challenging to interpret the inputs effect on fair value measurements and have little meaning to the users of the financial statements. Due to differences in fair value models and unobservable inputs that can be used by companies, this would further create issues with consistency and comparability from company to company. Again, this conflicts with the FASB's overall goal of increased clarity and transparency for the users of the financial statements.

#### Management's Best Estimate

We believe that the measurement uncertainty analysis fundamentally challenges the overall premise of fair value measurement. Fair value measurement represents management's best estimate of value given the facts and circumstances at a given point in time. We support clear and transparent disclosure around how management has arrived at their estimates; however, we believe that adding possible different alternative inputs creates confusion around the estimates. At the end of the day, if management believed alternative inputs were more appropriate than the ones utilized in their model, management would have used those for their estimate. In addition, adding alternative inputs would mislead the users of the financial statements into believing that the fair value reported does not truly represent the most appropriate fair value and that management's best estimate of the unobservable inputs were not applied. As such, we believe that management's best estimate is the only appropriate measure to disclose and analyze.

#### Unit of Account

The Proposed Update is unclear as to the unit of account for which the proposed measurement uncertainty analysis would apply. Given the nature of company's financial instruments, the complexity of such a measurement uncertainty analysis could be enormous. For instance, companies own thousands of debt securities which are classified by asset type in their fair value measurement disclosures. To model a particular asset type under the proposed measurement uncertainty analysis, it may involve modeling voluminous amounts of individual securities that comprise the various asset types that constitute Level 3 financial instruments, especially since inputs will likely be different for each security. As a result, we assume that the intent of the Proposed Update was to model a particular asset class as a group rather than by individual securities. We believe this will not likely to have a significant impact on the overall fair values disclosed, while creating an operation practical expedient that companies will be able to apply.

#### Undue Costs

As mentioned before, the potentially limitless possibilities of alternative inputs create significant issues from a financial statements preparation standpoint, as well as the ability of the financial statement users to use and interpret the results. In addition, the additional measurement uncertainty analysis will introduce a significant level of complexity for companies as they try to develop procedures to ensure that the input assumptions are derived in a controlled and

documented environment. The increased costs associated with developing, measuring, and auditing the measurement uncertainty analysis would be significant regardless of the size of the company. Also, serious concern should be given to the truncated timeframes a company is required to file their financial statements. Given the limitless possibilities that may be created, it will be increasingly difficult to publish reliable and meaningful fair value measurement information in accordance with each company's filing deadlines.

Further, although an entity is ultimately responsible for fair value measurements provided in their financial statements, a substantial amount of the detail required to complete the proposed measurement uncertainty disclosure is not readily available. Specifically, information used to produce fair value estimates is often obtained from independent third-party pricing vendors and broker quotes. As a result, to produce the proposed measurement uncertainty analysis, an entity would need to obtain substantially more information from their pricing services and brokers concerning the specific quantitative inputs used to price each security and have the pricing service or broker provide multiple valuations as a result of changing the unobservable inputs or attempt to replicate the information with its own systems. This information is not currently provided and it is uncertain whether or when it might be possible to obtain it from pricing services and brokers. Regardless of whether the information could be provided by pricing services or brokers, an entity would incur significant additional costs to comply with the Proposed Update.

As such, this proposed measurement uncertainty analysis will add a significant amount of undue costs for a disclosure that has numerous consistency and comparability issues, does not enhance clarity and transparency for the users of the financial statements, and would be misleading to the users of the financial statements.

#### Effective Date

We recognize that the effective date of the Proposed Update has not been determined. If the Proposed Update is modified to exclude the measurement uncertainty analysis, we believe the new standard could be effective as early as the first period beginning after the final guidance is issued. If the proposed measurement uncertainty analysis is retained, we believe the effective date of the Proposed Update should be no earlier than one year following the issuance of the final guidance. An implementation period of at least one year is necessary to provide financial statement preparers with sufficient time to develop, test, and execute changes to current systems, controls, and processes to produce the proposed measurement uncertainty analysis.

#### Conclusion

In conclusion, we appreciate the opportunity to provide our thoughts on this Proposed Update. The ACLI recognizes the significance of the Boards' joint projects, and we continue to support convergence on these projects. As discussed above, we do not support the proposed measurement uncertainty analysis and we believe that it should be removed in its entirety from the Proposed Update. If the FASB continues to feel that the measurement uncertainty analysis is valuable to the financial statement users, we propose that further qualitative disclosures be added to the financial statements instead of quantitative information to more effectively achieve the FASB's goal of clarity and transparency. Additional qualitative disclosures will allow the exposure and the method that management uses to determine fair value measurements to be appropriately disclosed, while acknowledging the uncertain nature of the estimate.

I hope these comments assist you during your redeliberations of the Proposed Update. In the event that any FASB member would like any further clarification of our positions, I am happy to explain them in greater detail.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Monahan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Monahan  
Director, Accounting Policy