

AMERICAN INTERNATIONAL GROUP, INC.



November 30, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1870-100 – Discussion Paper, *Preliminary Views on Insurance Contracts*

AIG appreciates the opportunity to comment on the Discussion Paper, *Preliminary Views on Insurance Contracts* (the “Discussion Paper”). We support the Financial Accounting Standard Board’s (“FASB”) and the International Accounting Standards Board’s (“IASB”) (together “Boards”) overall objective of developing common requirements for measuring and reporting insurance contracts. However, we have certain key concerns with the Discussion Paper as summarized below and discussed in detail in our responses to the FASB’s specific questions in the Appendix.

This comment letter is submitted in accordance with the FASB’s instructions so AIG may request that its representative, Tom Jones, Director and Global Head of Accounting Policy, be admitted to the Insurance Contracts Round Table (“Round Table”) meeting scheduled for December 20, 2010 in Norwalk, Connecticut.

Broad accounting model

We believe United States generally accepted accounting principles (“U.S. GAAP”) comprehensively address the accounting for insurance contracts and, for the most part, have produced relevant and reliable results for many years. Thus, we believe the FASB should consider targeted enhancements to the current accounting standards rather than undertaking a wholesale reconsideration of accounting for insurance contracts. Areas of particular focus include (i) requiring all entities that issue contracts that meet the definition of insurance to account for them as insurance, (ii) accounting for deferred acquisition costs, (iii) updating the assumptions underlying long-duration contracts at each balance sheet date, and (iv) comprehensively re-evaluating how discounting should be applied to the cash flows of different types of financial arrangements (e.g., leases, insurance, pension benefits).

We believe there are important differences in the economics of short- and long-duration contracts and these differences should be recognized through the use of accounting models tailored to present these differences in the financial statements. For example, many short-duration contracts have cash flows that cannot be reasonably predicted as to timing and amount (e.g., catastrophe, environmental, asbestos, directors and officers liability) while many long-

duration contracts, due to the laws of large numbers and the specifics of the contract terms, are subject to reasonable estimation of the timing and amount of cash flows.

Measurement

We generally agree with the building-block approach, with periodic updating of assumptions, to measuring long-duration contracts. We believe the composite margin approach proposed by the FASB will produce less subjective and more reliable, consistent, and understandable results compared with the two-margin approach proposed by the IASB. We believe there has been extensive discussion in the insurance industry about the risk adjustment and residual margin and, despite this discussion, confusion about what they represent and how they would be calculated remains. We agree with the proposal that no day-one gain would be recorded upon entering into an insurance contract.

Unbundling

We do not believe it is appropriate to unbundle certain components of insurance contracts. Generally, insurance policies are priced on an integrated basis and we believe it is rare that insurers manage components of insurance contracts separately or that unbundling would result in materially different accounting results. Further, we believe it will be operationally difficult and arbitrary to associate the costs and revenue aspects of the unbundled components. Thus, unbundling insurance contracts in most cases (i) would not provide more understandable or decision-useful information for financial statement users, (ii) would be impractical for companies to implement, and (iii) would likely result in decreased consistency and comparability in financial reporting because significant management judgment would be required.

We believe it is generally more appropriate to evaluate an insurance contract in its entirety (with the exception of embedded derivatives), because the various components of an insurance contract, such as financing, insurance risk, and servicing, are most often interrelated and would typically not be found as standalone transactions in the marketplace.

We believe the current guidance under Accounting Standards Codification (“ASC”) Topic 815, *Derivatives and Hedging* (“Topic 815”), is sufficient to determine whether components of a contract (including insurance contracts) should be separately accounted for and only those components that meet the existing embedded derivative guidance in Topic 815 should be unbundled.

Discounting

We believe both Boards should undertake a comprehensive re-evaluation of how discounting should be applied to the cash flows of different types of financial arrangements (e.g., leases, insurance, pension benefits). We believe the Boards should reconsider the linking of discount rates on liabilities supported by specific pools of assets and the practicability of introducing liquidity premiums. We are particularly concerned with how the liquidity adjustment could be consistently and reliably determined. That is, we are concerned with how the liquidity adjustment would be tested for reasonableness because there is no market in which the liquidity adjustment would be evident.

Field testing

If the Boards move forward with the proposed accounting changes substantially as written, we suggest the Boards perform extensive field testing of the proposals across a broad range of

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insurance-industry constituencies. We believe the sweeping changes contained in the proposed standards may prove difficult and costly to implement consistently in the U.S. and across the many countries that apply, or soon will apply, IFRS.

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This comment letter is submitted in accordance with the FASB's instructions so AIG may request that its representative, Tom Jones, Director and Global Head of Accounting Policy, be admitted to the Round Table meeting scheduled for December 20, 2010 in Norwalk, Connecticut. Our responses to questions raised by the FASB of importance to AIG are included in the Appendix to this letter. Thank you for the opportunity to present our views. Please do not hesitate to contact me at (212) 770-8997 if you have any questions or need clarification with respect to any matters addressed in this letter.

Very truly yours,

/s/Tom Jones
Director and Global Head of Accounting Policy
American International Group, Inc.

cc: Anthony Valoroso
Vice President and Chief Accounting Officer
American International Group, Inc.

APPENDIX

Definition and Scope

Question 1: Are the proposed definitions of insurance contract and insurance risk (including the related guidance) understandable and operational?

We agree with the proposed definition of an insurance contract, including the related guidance, and believe it is understandable and operational.

Question 2: If the scope of the proposed guidance on insurance contracts is based on the definition of an insurance contract rather than on the type of entity issuing the contract, would financial reporting be improved?

We believe financial reporting would be improved if the scope of the proposed guidance on insurance contracts (“Proposed Guidance”) is based on the definition of an insurance contract rather than on the type of entity issuing the contract. This will ensure consistent application of guidance for all insurance contracts and enhance comparability across entities.

Question 3: Do you agree with the proposed scope exclusions? Why or why not?

We believe the scope of insurance contracts under U.S. GAAP should be consistent with the scope exclusions in paragraph 4 of the IASB’s Exposure Draft ED/2010/8, *Insurance Contracts* (“Proposed ED”). Thus, we disagree with the FASB’s proposal to exclude financial instruments with discretionary participation features, such as deposit-type and investment-type contracts. We are concerned that if these instruments are included within the scope of the FASB’s financial instruments standard the accounting for these instruments would not reflect the insurance aspects of their economics. In our view, it would be more appropriate to consider the accounting for these instruments as part of the insurance contracts project rather than the financial instruments project.

Questions 4: Should benefits that an employer provides to its employees that otherwise meet the definition of an insurance contract be within the scope of the Proposed Guidance? Why or why not?

We believe employer-provided benefits that otherwise meet the definition of an insurance contract should be excluded from the scope of the Proposed Guidance. Similar to other large companies, AIG uses a self-insurance financing arrangement to pay for most of its medical plan, and other welfare-type benefit options. While the insureds (the employees) contribute a premium, AIG, as a self-insurer, believes it has the ultimate fiduciary responsibility for paying the claims of its employees in the event of a short-fall. AIG does not intend to make a profit or generate revenues for AIG as is expected from our insurance subsidiaries that offer similar arrangements to third-parties. Rather, these arrangements are viewed as an operating expense pertaining to AIG’s overall employee-benefits and compensation costs. Consequently, we struggle to see how the proposed changes, if applied to employee benefits, would provide useful information to financial statement users or be an improvement to existing accounting, which is well understood by financial statement users.

Question 5: The Board's preliminary view is that participating investment contracts should not be accounted for within the proposed model for insurance contracts but, rather, should be included in the scope of the proposed model for accounting for financial instruments. Do you agree? Why or why not?

We disagree with FASB's view that contracts with participating investment features should be included in the scope of the proposed model for accounting for financial instruments. We understand that participating investment contracts, including deposit-type and investment contracts, of insurance companies may meet the definition of financial instruments under the FASB's proposed standard for financial instruments ("Financial Instruments ED") and therefore logically could be considered within the scope of the Financial Instruments ED. However, we believe it would be more appropriate to consider the accounting for these instruments holistically within the FASB's comprehensive insurance contracts project. If these contracts are included within the scope of the Financial Instruments ED, we are concerned the accounting for these instruments would not capture the insurance-related nature and the economics of the contracts. We suggest the FASB revisit the accounting under existing U.S. GAAP for participating investment contracts and update the current guidance on a targeted basis and within the context of the insurance contracts project rather than completely change the accounting for participating investment contracts.

We also point out the accounting for life-settlement contracts is proposed to be addressed within the Financial Instruments ED rather than the insurance contracts project. In paragraph BC40 of the Financial Instruments ED, the FASB states that life-settlement contracts do not involve an insurable interest and the investor is not a policy holder; therefore, such contracts should be included in the scope of the Financial Instruments ED. We disagree with this notion because the underlying economics of life-settlement contracts do not differ on the basis of having an insurable interest. For example, a company may have had an insurable interest in an executive's life at the time the company purchased the life insurance contract, but would no longer have an insurable interest following that executive's retirement. The Proposed Guidance would seemingly require a different basis of accounting to be applied to the contract upon retirement, which we believe is inappropriate.

Question 6: Do you support the approach for determining when noninsurance components of contracts should be unbundled? Why or why not?

We do not believe it is appropriate to unbundle certain components of insurance contracts. Generally, insurance policies are priced on an integrated basis and we believe it is rare that insurers manage components of insurance contracts separately or that unbundling would result in materially different accounting results. Further, we believe it will be operationally difficult and arbitrary to associate the costs and revenue aspects of the unbundled components. Thus, unbundling insurance contracts in most cases (i) would not provide more understandable or decision-useful information for financial statement users, (ii) would be impractical to implement operationally, and (iii) would likely result in decreased consistency and comparability in financial reporting because significant management judgment would be required. Additionally, we believe the initial and ongoing costs associated with unbundling, from both a preparer standpoint in collecting and processing the necessary information and from a user standpoint in meaningfully analyzing and interpreting that information, outweigh the benefits that would be derived.

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We believe it is more appropriate to evaluate an insurance contract in its entirety (with the exception of certain embedded derivatives), because the various components of an insurance contract, such as financing, insurance risk, and servicing, are most often interrelated, are priced on an integrated basis, and typically would not be found as standalone transactions in the marketplace.

However, if the FASB adopts unbundling of certain components of insurance contracts, we believe the FASB should provide additional guidance with respect to the meaning of “not closely related” components of insurance contracts as well as revisit the proposed definition of the “investment component.” We are particularly concerned that some life products, such as equity-indexed annuities, equity-indexed life insurance, guaranteed minimum death benefits, and similar contracts, which are currently treated as insurance contracts in their entirety, will have to be unbundled under the Proposed Guidance. In most cases, bifurcation of the components of these products would not provide significantly different income statement results. We believe the current guidance under Topic 815, is sufficient to determine whether components of a contract (including insurance contracts) should be separately accounted for and only those components that meet the existing embedded derivative guidance in Topic 815 should be unbundled.

If the FASB proceeds with the unbundling proposal, we believe the examples in the Proposed Guidance are not sufficiently comprehensive to establish a clear principle for unbundling. We also believe the FASB should provide examples of when unbundling is not required.

Recognition and Measurement

Question 7: Do you agree with the use of the probability-weighted estimate of net cash flows to measure insurance contracts? Does that approach faithfully represent the economics of insurance contracts? Is it an improvement over existing U.S. GAAP?

We agree that the use of probability-weighted estimates of net cash flows should be used to measure insurance contracts, but recommend that the FASB provide examples of the application of such guidance to ensure consistent application across insurers.

Question 8: Do you think that an entity’s estimate of the net cash flows should include a risk adjustment margin?

We do not believe an entity’s estimate of the net cash flows should include a risk adjustment margin because we believe the risk adjustment cannot be calculated consistently across entities and therefore may lead to lack of comparability among insurers and less relevant and reliable information for financial statement users.

Question 9: Is the objective of the risk adjustment margin understandable? If so, do you think that the techniques for estimating the risk adjustment margin (see paragraph 52(b)), faithfully represent the maximum amount that the insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected?

We believe the risk adjustment and the residual margin should be measured as a single component as proposed by the FASB. We do not believe the definition and the objective of the risk adjustment are clearly articulated. The composite margin should be set to ensure no day-one gain is recognized upon entering into a contract.

Question 10: Do you think that the risk adjustment margin would be comparable for entities that are exposed to similar risks?

We are concerned about the comparability of the financial statements due to the increased use of management's estimates. We do not believe the risk adjustment has been clearly articulated and is not well understood by industry participants, despite extensive discussion and debate.

Question 11: Do you agree with the description of cash flows that should be included in the measurement of an insurance contract? Is the proposed guidance operational?

We agree that the measurement of a long-duration insurance contract should include the expected present value of the future cash outflows less future cash inflows that will arise as the insurer fulfills the insurance contract. We believe entity-specific estimated cash flows with respect to mortality and lapse-rate assumptions for life contracts will provide a relevant and reliable basis for determining the liability. We also agree with the FASB's proposal to provide a composite margin to ensure no day-one gain is recognized because the insurer has not fulfilled any obligations under the terms of the contract at the initial recognition. We suggest the FASB carefully review the manner in which the amortization of the composite margin is recognized.

However, we believe a different model for short-duration contracts is required to faithfully and reliably represent the significantly-different economic characteristics of such contracts. Considering the lack of market-observable information with respect to expected cash flows on certain non-life insurance contracts, (especially for non-homogenous and longer-tail lines of business, e.g., catastrophe, environmental, asbestos), we believe entity-specific cash flows represent a more relevant basis for determining the liability because market-based servicing, settlement and other cost assumptions may differ significantly from the entity's own expected cost structure and experience, distorting the actual expected future obligations of the insurance entity. We also believe discounting certain non-homogenous non-life cash flows will not improve the reliability or representational faithfulness of many non-life business lines because of the unpredictability of the timing and amount of cash flows.

Question 12: Do you agree that the carrying amount of all insurance contracts should be discounted if the effect is material? Do you agree with the proposed guidance on the discount rate that should be used to measure the carrying amount of insurance contracts? If not, which discount rate should be used?

We believe it is appropriate to discount estimated cash flows for life contracts at a rate that is consistent with a rate that would be earned on investments that a market participant would be expected to make to support those liabilities. This rate would reflect the spread an insurer would be expected to earn from the financial management of the business. We do not believe the risk-free rate is appropriate because it is not realistic to believe an insurance company would back insurance liabilities solely with risk-free investments.

We generally are opposed to discounting non-life long-tail insurance contracts except when there are fixed and reliably-determinable cash flows to discount. We believe discounting uncertain cash flows only increases the subjective nature of these estimates, and would make the estimates less reliable and therefore less meaningful for investors. This is particularly the case for long-tail non-life liabilities, such as asbestos or environmental liabilities, that do not have reliable and predictable historical claims payment patterns and are subjected to an ever-changing legal, social and scientific environments

We believe a risk-free rate plus a liquidity adjustment would not reflect the economics of a contract and therefore would not be meaningful to financial statements users. While the timing and amount of future cash flows for a portfolio of life insurance contracts can be predicted with a degree of relative accuracy due to the existence of reliable and consistent historical mortality and lapse experience, for many long-tail non-life lines of business, in contrast, the amount and timing of expected loss and loss expense payments can vary significantly among insurers due to numerous factors for which historical results cannot be used as an accurate predictor of future experience. Discounting highly uncertain cash flows and adding a liquidity adjustment that can vary significantly will only increase the subjective nature of the cash flow estimates and therefore reduce the relevance of the information to investors and other financial statement users. Underwriting performance based on nominal measures of premiums, losses and expenses, is a useful and well-understood success factor for non-life insurers today, as viewed by both management and financial statement users.

Question 13: Do you think that acquisition costs should be included as one of the cash flows relating to the contract? If not, how would you account for acquisition costs?

We believe acquisition costs should be included in the initial and subsequent measurements of the insurance contract as contract cash outflows.

Question 14: Do you agree that acquisition costs included in the cash flows used in the measurement of the insurance contract should be limited to those that are incremental at the individual contract level? If not, which acquisition costs, if any, would you include in the measurement of the insurance contract?

We do not agree acquisition costs included in the cash flows used in the measurement of the insurance contract should be limited to those that are incremental at the individual contract level. We believe other direct costs, such as internal agents' commissions and/or salaries, also should be included in acquisition costs because they are substantially the same as commissions paid to the third-party agents. Thus, we believe the substance of the acquisition cost should be considered rather than its form. In addition, because the FASB recently deliberated and issued a standard on the accounting for acquisition costs, in our view, many of the concerns have been addressed through this deliberation and need not be revisited. We believe the guidance under Accounting Standards Update 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, is adequate and should be retained to minimize implementation costs that cannot be justified by the benefit of further changes in the accounting for acquisition costs.

Question 15: Do you agree with the use of either the composite margin approach or two-margin approach to measure the net insurance contract? Does either approach faithfully represent the economics of insurance contracts? Is either approach an improvement over the measurement used in current U.S. GAAP?

We prefer a single composite margin because we believe the explicit measurement and reporting of the risk adjustment and residual margin may lead to lack of comparability among insurance companies and less relevant and reliable information for financial statement users.

Question 16: Do you think that the composite margin should be recognized in earnings in subsequent periods using the ratio described in paragraph 83? If not, how would you recognize the composite margin in earnings?

We do not believe this accounting recognition will provide useful information to financial statement users and, in fact, will mislead financial statement users to the extent of the release of the composite margin related to insurance contracts. Thus, we believe the composite margin should not be locked and should be used to offset an increase in present value of the fulfillment cash flows in subsequent periods.

Question 17: Do you agree that interest should not be accreted on the composite margin? Why or why not?

We agree that interest should not be accreted on the composite margin.

Question 18: Do you think that all insurance contracts should be recognized and measured using one approach or that some insurance contracts should be recognized and measured using an alternative approach (for example, the modified approach)? Why or why not?

We believe some insurance contracts should be recognized and measured using an alternative approach such as proposed modified approach; however, as discussed in our response to question 19 below, we believe the modified approach is appropriate for certain short-duration contracts to reflect accurately the nature and the economics of such contracts. This is consistent with our belief that a single model is not appropriate given the significant differences that exist between life and non-life insurance contracts. As such, we believe the modified approach should be required for short-duration insurance contracts as modified for our suggestions discussed in our response to question 19 below.

Question 19: If an alternate approach is required for some insurance contracts, what recognition, measurement, and presentation provisions should be applied (including those items noted in paragraph 106)?

We believe an alternative model should be required for short-duration insurance contracts to simplify the measurement of such contracts and because we believe the building-block approach is not appropriate for short-duration contracts and the modified approach would represent a reasonable approximation of the present value of the fulfillment cash flows and the composite margin. We believe short-duration contracts are fundamentally different from long-duration contracts and we would require short-duration contracts to be recorded under a model that recognizes and is closely aligned with their specific characteristics.

We believe the modified approach as described in the Proposed ED does not closely and accurately reflect the characteristics and the economics of the short-duration insurance contracts. We do not agree with a 12-month (or any other) bright-line coverage period to define a short-duration contract. We believe management must be permitted to apply judgment to the specific characteristics of short-duration contracts to determine whether the criteria for the modified approach are appropriate. The “bright-line” criteria can result in different accounting for similar insurance contracts if, for example, one contract extends for a period longer than 12-months even if that period is not significantly different (e.g., one month). Examples of characteristics we believe should be included in the criteria for determining whether an insurance contract is considered to be short- or long-duration include, but are not limited to, uncertainty and volatility

of claims, claims repayment period (e.g., long-tail versus short-tail), and business drivers (underwriting income or loss versus investment results).

We believe the FASB should not ignore the existing guidance for short-duration contracts under U.S. GAAP, which is well understood and has not given rise to significant issues associated with its application. The characteristics of short-duration contracts would be best aligned with a model similar to the current U.S. GAAP short-term revenue model with footnote disclosures such as development tables.

Question 20: Do both the building-block approach and the modified approach (with the latter approach applied only to certain short-duration contracts) produce relevant and decision-useful information? Why or why not?

We believe the two-margin approach (the explicit measurement and reporting of the risk adjustment and residual margin), if required by the FASB, will result in less relevant and decision-useful information to financial statement users due to our concerns about comparability of financial statements among insurers. Furthermore, we believe the composite margin would produce more relevant and decision-useful information provided the modification to the subsequent measurement of the composite margin as discussed in our response to question 16 above is accepted.

Question 21: How should the scope of insurance products for each approach be defined (for example, duration of coverage period, duration of claims payment period, or type of insurance)?

We believe the scope of insurance products for each approach, both the building-block and modified approaches, should be defined in a manner similar to the guidance under the existing U.S. GAAP ASC Topic 944, *Financial Services - Insurance*, which is well understood and has not given rise to significant issues associated with its application.

Question 22: Are there specific types of insurance contracts for which the approaches would not provide decision-useful information?

We are not aware of specific types of insurance contracts for which the approaches would not provide decision-useful information provided the scope of insurance products for each approach is defined in a manner similar to the guidance under ASC Topic 944.

Question 23: What are the implications of the recent U.S. healthcare reform to the application of the proposed contract boundary principle, including whether health insurance contracts written under the new reforms would meet the conditions in the proposed guidance to be accounted for under the modified approach?

The definition of the contract boundary could affect certain health insurance and other contracts in which a regulator imposes constraints on re-pricing for individual policyholders. In some jurisdictions these contracts currently are treated as short-duration contracts; however, under the Proposed Guidance the expected cash flows may extend beyond the one-year boundary if the insurer cannot fully re-price and re-underwrite the individual policy. Alternatively, there may be contracts currently treated as long term in some jurisdictions in which the proposals for the contract boundary will result in only cash flows for a shorter period being considered (for example, if the contracts can be re-priced for a change in risk). If these contracts have significant

acquisition costs that are recovered from cash flows in periods beyond the contract boundary, this could lead to an initial loss being recognized.

Question 24: What other changes should be considered to both improve and simplify U.S. GAAP for short- and long-duration insurance contracts?

We believe the insurance contract standards in U.S. GAAP have served financial statement preparers and users well for decades and are not in need of wholesale change. We agree there are areas within those standards that, with the benefit of years of experience, could be improved, particularly in the areas of (i) requiring all entities that issue contracts that meet the definition of insurance to account for them as insurance, (ii) accounting for deferred acquisition costs, (iii) updating the assumptions underlying long-duration contracts at each balance sheet date, and (iv) comprehensively re-evaluating how discounting should be applied to the cash flows of different types of financial arrangements (e.g., leases, insurance, pension benefits). We believe it is unnecessary to introduce an untested model for insurance accounting in the U.S. and world-wide, when the existing U.S. GAAP standards have proven useful over many years.

Question 25: What are the incremental costs of adopting the alternatives described in this Discussion Paper? Please separately describe one-time costs and ongoing costs.

We believe the FASB's wholesale reconsideration of accounting for insurance contracts is unnecessary and will result in significant and material implementation costs. Thus, the FASB's primary considerations should rest with current guidance under U.S. GAAP with targeted changes in areas considered to need improvement.

Reinsurance

Question 26: The scope of the proposed guidance includes reinsurance contracts that an insurer issues or acquires. However, insurance contracts held directly by other policyholders would be excluded from the scope of the proposed guidance. Do you agree with this exclusion? Why or why not?

We agree with the Proposed Guidance, which includes only reinsurance contracts that an insurer issues or acquires but excludes the insurance contracts held by other policyholders. We believe insurance contracts held by policyholders, other than cedents, should be considered separately.

Question 27: Should there be symmetry between the recognition and measurement of reinsurance contracts and the underlying contract ceded?

We recognize mismatches between the coverage period of a reinsurance contract and the coverage period of an underlying contract ceded may arise; however, we believe each contract should be recognized and measured under the terms of the individual contracts and not on a combined basis because the recognition of each contract should be aligned with its economics.

Question 30: Should short- and long-duration (or nonlife and life) contracts be presented in a similar manner even if such contracts are measured under different approaches?

We believe short- and long-duration contracts have significantly different risk and other characteristics (e.g., predictability of amount and timing of cash flows) and, absent the fact that they historically have both been termed "insurance" are sufficiently different that they should be presented in a manner that best captures decision-useful information specific to their significantly different characteristics.

Additional Question for Respondents

Question 32: After considering your views on the specific issues contained in this Discussion Paper and the IASB's Exposure Draft, what do you think would represent the most appropriate improvement to U.S. GAAP?

Pursue an approach based on the IASB's Exposure Draft?

Pursue an approach based on the IASB's Exposure Draft with some changes? Please explain those changes.

Pursue an approach based on the Board's preliminary views in this Discussion Paper?

Pursue an approach based on the Board's preliminary views in this Discussion Paper with some changes? Please explain those changes.

Make targeted changes to address specific concerns about current U.S. GAAP (for example, items included in paragraph 7)? Please describe those changes.

We believe it is unnecessary to introduce wholesale reconsideration of accounting for insurance contracts because the existing insurance contract standards in U.S. GAAP are well defined and have proven useful over many years. We agree there are areas within those standards that, with the benefit of years of experience, could be improved, particularly in the areas of (i) requiring all entities that issue contracts that meet the definition of insurance to account for them as insurance, (ii) accounting for deferred acquisition costs, (iii) updating the assumptions underlying long-duration contracts at each balance sheet date, and (iv) comprehensively re-evaluating how discounting should be applied to the cash flows of different types of financial arrangements (e.g., leases, insurance, pension benefits).

If the Boards move forward with the proposed accounting changes substantially as written, we suggest the Boards perform extensive field testing of the proposals across a broad range of insurance-industry constituencies. We believe the sweeping changes contained in the proposed standards may prove difficult and costly to implement consistently in the U.S. and across the many countries that apply, or soon will apply, IFRS.