



AMERICAN ACADEMY
of ACTUARIES

September 2, 2008

Mr. Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-6561

Dear Chairman Cox:

On behalf of the Financial Reporting Committee of the American Academy of Actuaries¹, we want to thank you for including the Academy in the SEC Roundtable on Fair Value Accounting Standards. Some of the more significant points that I would like to emphasize include the following:

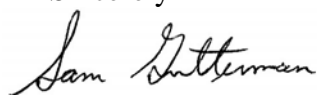
- Actuaries have dealt with the measurement of estimates in the context of illiquid markets for many years. We have learned that effective communication is crucial, including communication with managements and Boards of Directors, users of financial statements, auditors and peer reviewers. Effective communication is achieved in part through an entity-wide quality control and risk management environment, adequate audit evidence of the derivation of estimates, and effective disclosure.
- Applicable accounting and auditing standards should be based on principles or high-level rules, rather than detailed rules, as detailed rules will tend to lead to distorted results that may be less relevant, as well as to encourage the design of financial instruments simply to meet or avoid those rules.
- It is important to use forward looking rather than historical cost approaches to measure financial assets and financial liabilities, particularly financial instruments.
- For financial services entities, it is important for financial assets and financial liabilities to be measured on a consistent basis. Otherwise, potentially misleading information may be provided, for example, as a result of interest rate movements.
- More effective disclosure is needed. Certain elements of IFRS 7 that can provide insight into estimates should be required, such as the use of sensitivity of key assumptions for which significant uncertainty exists and back-testing, although dictating specific presentations should be avoided. Significant models and key assumptions used should be described in a transparent manner, avoiding boilerplate or overly technical language. The impact of fair values should be discussed in a straightforward manner that doesn't cover hundreds of pages of useless and repetitive detail.

¹ The American Academy of Actuaries is a 16,000-member professional association whose mission is to assist public policymakers by providing objective expertise and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

- Methods need to be developed, where possible, to disaggregate changes in fair values that facilitate the communication of useful information such as sources of income. We believe that measurement techniques will continue to evolve, but that evolution should not serve as an excuse for use of black box proprietary models and techniques that no one other than their developer understands.
- Although theoretically non-performance risk is a part of fair value, it is the position of the Academy that inclusion of non-performance risk in the value of any liability is inappropriate. However, if this risk is required to be reflected in the fair value of liabilities, disclosure of its effect will be needed and accounting standard setters need to conduct a significant educational effort to convince stakeholders of its usefulness.
- Users of financial statements need to overcome their knee-jerk reaction that all income statement or balance sheet volatility is necessarily bad. If this does not occur, market pressure will continue to lead managements to attempt to stabilize results using techniques inconsistent with soundly based decision-making.
- Significant educational effort is needed for mid-size companies and local audit practices with respect to fair value measurement. We encourage international cooperation in this effort.
- It is important that preparers, auditors and regulators utilize appropriately experienced and skilled experts to comply with complex-to-apply accounting standards in the context of complex instruments and other products. In addition, auditors and regulators must effectively integrate experts into their audit or review process, for example, as contemplated by the currently being revised ISA 620. Preparer experts must be able to explain their black box models to managements, Boards of Directors and to auditors' experts in a manner that can withstand expert scrutiny. An adequate control environment and effective communication are needed for this purpose.
- Continued cooperation between the FASB and the IASB on accounting standards and the PCAOB and the IAASB on auditing standards with respect to fair values is encouraged.

Should you desire any clarification or expansion of these comments, please let us know.

Sincerely



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cc: Henry Siegel
Chairperson
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