ACLI
Financial Security. For Life.

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

Dear Chairman Cox:

We are in the midst of an extraordinary economic cycle, marked by a crisis of confidence in the financial markets. Capital flows have deteriorated to the point where it is difficult to determine the true economic values of many securities. Given the disconnect that exists between accounting valuations and economic value in the current market environment, I am urging you on behalf of the American Council of Life Insurers (ACLI)[1] and its member life insurers to once again modify SFAS 157 "Fair Value Measurements" as well as consider additional changes to the classification of securities per SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities" and recognition of impairment rules as per SFAS 115 and other guidance.

The ACLI appreciates the guidance issued by the Financial Accounting Standards Board (FASB) on October 10, 2008 clarifying how SFAS 157 should be applied when valuing securities in markets that are not active. Although SFAS 157 addresses the use of forced or distressed transactions within an orderly market, it does not address a situation when the entire market is distressed or disorderly. As such SFAS 157 and FASB Staff Position No. 157-3 ("FSP 157-3") do not allow companies to ignore the inputs from distressed markets. SFAS 157 still requires the consideration of nonperformance and liquidity risk premiums as reflected in the current dislocated market environment to satisfy the SFAS 157 requirement for a current exit price. It effectively assumes that all companies are in a stressed condition and would, therefore, be more likely to transact at those values. FSP 157-3 did not go far enough to permit changes to the approach currently used by many in the life insurance industry to value securities in markets that are not active and few companies will be overriding values on securities obtained from pricing services in favor of internal models and assumptions. This essentially results in no change to the current practice. The real issue with mark to market accounting is that the revised definition of "fair value", exit value, in SFAS 157 may not be appropriate in all circumstances.

The ACLI is asking the SEC and the FASB to provide greater latitude in the use of unobservable inputs to internal models and assumptions for determining fair values for securities in distressed or disorderly markets. While we continue to support the use of fair value for certain financial instruments, we recognize that those values need to take into account the fact that not all companies would want to transact in a

[1] The American Council of Life Insurers is a trade association with 353 member companies that account for 93 percent of the life insurance industry's total assets in the United States, 93 percent of life insurance premiums and 94 percent of annuity considerations. ACLI member companies are leading providers of retirement and financial security products, including life, disability income, and long-term care insurance; annuities; reinsurance; IRAs; and pensions such as 401(k), 403(b), and 457 plans.

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distressed or a disorderly market. While one could interpret the provisions of SFAS 157 to provide the flexibility to depart from market prices in certain circumstances, the pervasive belief in the life insurance industry is that it is only permitted in rare circumstances. This is why we believe the recent efforts of the SEC and the FASB were insufficient to address the fair value issue. Moreover, IASB amended IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial instruments: Disclosures” to permit reclassification of financial instruments. In a press release dated October 13, 2008, the IASB has stated that the deterioration of the world’s financial markets that has occurred during the third quarter of this year is a possible example of rare circumstances cited in the amendments. We also advise the SEC and the FASB to consider IASB’s view on current market conditions.

The ACLI suggests that the FASB relax the rules under SFAS 115 to be consistent with the IASB’s amendments. Companies should be allowed to categorize securities similar to that of held to maturity portfolios when the companies can justify that they have no intention to sell them in distressed or disorderly markets. The justification for such classification may be required to be disclosed in the financial statements but should not be subject to the present tainting rules under SFAS 115. In addition, SFAS 157 should be amended or the FSP should be revised to allow for companies to use their own inputs for non performance and liquidity discounts in arriving at fair value, if the only observable transactions from which inputs for valuation purposes can be derived are from distressed markets.

We are also concerned with the application of other than temporary impairment rules in the current market. The use of current market assumptions in the determination of other than temporary impairments has led to impairment losses on fixed maturity instruments even for those instruments where companies expect to receive all contractual cash flows. If companies have the ability and intent to hold a security until its maturity and the company expects to receive all contractual cash flows, we do not believe that recording realized losses adds integrity and transparency to the financial statements. By clarifying the rules as stated above, unnecessary impairment evaluations would be eliminated given that the expected future cash flows of a security, based on the ability and intent to hold may exceed the market based inputs that are currently used.

The ACLI is mindful that transparency is more important now than ever before. Therefore, in conjunction with these changes, we would support additional financial statement disclosures that would provide the investor with information on “market value”. This could supplement the disclosures already required around market risks. This will preclude the loss of any information that investors have at their disposal in normal environments.

The ACLI intends to follow this letter with a more detailed letter drafted from the ACLI Accounting Committee that provides specific recommendations to address our concerns.

The market conditions that exist today will likely persist through the end of the year. We encourage the SEC and FASB to quickly take on these issues in order to provide companies with the opportunity to make changes for year end reporting purposes. During this period of study, the ACLI would welcome the opportunity to provide additional technical comments.

I would be happy to discuss this further if you have any questions or comments.

Sincerely,

Frank Keating