AMERICAN ACADEMY
of ACTUARIES

April 18, 2007

Mr. Robert Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

RE: Accounting for Insurance Contracts Acquired in a Business Combination

Dear Mr. Herz:

On behalf of the American Academy of Actuaries[1] Life Financial Reporting Committee, I am writing to express our concerns with an issue that was raised during the Financial Accounting Standards Board (FASB) meeting on February 13, 2007 regarding "Business Combinations: Applying the Acquisition Method Accounting for Insurance Contracts Acquired in a Business Combination" with respect to life insurance financial reporting. With respect to Issue 4 of the handout for the meeting, it was suggested that "the contract's original inception date," rather than the "date of acquisition," should be used for making retrospective adjustments to long-duration contract balances that are periodically adjusted based on current estimates of a book of contracts' profitability over the life of that book of contracts. During the discussion several FASB members appeared to agree with this position. We believe that the calculations resulting from such a decision would in many cases be flawed and difficult to implement for preparers. We believe that in general such a change would not improve the quality of financial reporting.

We believe the resulting calculations to be flawed for several reasons. First of all, the acquiree may not have based its calculations of the affected balances prior to the acquisition in a manner consistent with the acquirer's calculations after the acquisition. This disconnect could occur for several reasons. One possible reason would be materiality. The affected balance may have been deemed to be immaterial to the acquiree, but may be material to the acquirer. Since the balance was deemed to be immaterial, the acquiree may have calculated the affected balance using a method that did not incorporate the contracts' profitability. Since historical profitability was not tracked by the acquiree at the level necessary to

[1] The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession

1100 Seventeenth Street NW Seventh Floor Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org

determine its impact on the affected balance, the acquirer would have great difficulty determining the appropriate profits to use prior to the acquisition, and the resulting calculation is not likely to be reliable.

Even where the acquiree did base its calculations on the profitability of the book of contracts in question, applying the suggested methodology could be problematic. Depending on the form of the acquisition, only limited information on the historical profitability of particular blocks of contracts may be available to the acquirer. This would be particularly problematic in the case of a distressed acquisition, where the acquiree was in receivership, but could also be an issue in other types of acquisitions.

Even when relevant profitability information from the acquiree is available to the acquirer, there could be reliability issues. Actuaries at the acquirer would not necessarily be able to validate the pre-acquisition information or the controls over such information from the acquiree. This may not allow the actuary to be confident in the reliability of using such information in the post-acquisition calculations for public reporting.

Finally, even if all of the practical problems are resolved, it is not clear how the resulting calculations would provide improved information to users of the financial statements. We presume that any Purchase GAAP accounting guidance would require appropriate accrual balances to be held as of the date of acquisition, particularly a Value of Business Acquired (VOBA) or Present Value of Future Profits (PVFP) asset to ensure that the net liability value as of the date of acquisition is held at fair value. That being the case, it is unclear how incorporating pre-acquisition information from an unaffiliated acquiree in the calculation of post-acquisition retrospective adjustments to such balances would provide useful information to users of the acquirer’s financial statements. It appears to us that retrospective adjustment calculations based solely on profitability experience by the acquirer would be more relevant to users of the acquirer’s financial statements.

If you have any questions regarding the contents of this letter, please contact Tina Getachew at getachew@actuary.org or at (202) 223-8196. Thank you in advance for your consideration in this matter.

Sincerely,

Darin Zimmerman

Darin Zimmerman
Chairperson, Life Financial Reporting Committee
American Academy of Actuaries