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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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March 19, 2003

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, First Floor
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Dear Sir David and Members of the Board:

Thank you for the opportunity to comment on the Exposure Draft of the proposed IFRS on *Business Combinations*. On behalf of the International Accounting Standards Working Group (IASWG) of the National Association of Insurance Commissioners (NAIC), I am pleased to provide you with remarks on the proposed International Financial Reporting Standard in response to your Invitation to Comment.

ED3 - Business Combinations

Question 1 – Scope

The Exposure Draft proposes:

(a) to exclude from the scope of the IFRS business combinations in which separate entities or operations of entities are brought together to form a joint venture, and business combinations involving entities under common control (see proposed paragraphs 2 and 3 and paragraphs BC9-BC11 of the Basis for Conclusions). Are these scope exclusions appropriate? If not, why not?

(b) To include in the IFRS a definition of business combinations involving entities under common control, and additional guidance on identifying such transactions (see proposed paragraphs 9-12 and Appendix A, and paragraphs BC12-BC15 of the Basis for Conclusions).

Response:

We would first request the IASB to consider excluding 'not-for-profit' organizations from the scope of this exposure draft. Not-for-profit organizations are excluded from FAS 141: *Business Combinations*. We would also request the IASB to expand the U.S. GAAP definition of a not-for-profit insurer to include 'cooperative insurers'. Cooperative insurers include mutual insurance companies, reciprocal exchanges and fraternal organizations. These entities are not formed necessarily for profit, but are formed to provide insurance protection to their members at a minimum cost. As cooperative insurers are substantially similar to the definition of a not-for-profit enterprise they should also be included within this classification and excluded from the scope.

Question 2 – Method of Accounting for Business Combinations

The Exposure Draft proposes to eliminate the use of the pooling of interests method and require all business combinations within its scope to be accounted for by applying the purchase method (see proposed paragraphs 13-15 and paragraphs BC18-BC35 of the Basis for Conclusions). Is this appropriate? If not, why not? If you believe the pooling of interests method should be applied to a particular class of transactions, what criteria should be used to distinguish those transactions from other business combinations, and why?

Response

We agree that a purchase method should be used for all business combinations that create a parent-subsidiary relationship. However, we feel that the IASB (and US GAAP) should reevaluate the proposal to entirely eliminate the pooling of interests method. Those business combinations that are fostered by an exchange of equity that result in a new entity should be accounted for as a merger under a pooling of interests method. (An appropriate example is the merger of two mutual or fraternal insurance companies.)

We acknowledge and support the Board's intention noted in the Basis of Conclusions to further evaluate and possibly develop criteria to account for 'true mergers' using a method other than the purchase method. However we feel that the initial Business Combinations IFRS should reflect this option. Mergers of mutual or fraternal insurance companies are not rare in the US and they do in fact happen on a regular basis. Although we understand the Board needs additional time to consider the particulars of these transactions and develop an appropriate accounting method, we do not feel that these transactions should be ignored in this initial IFRS.

We request the Board to consider the implications this standard would have had on the recent merger of Aid Association for Lutherans (AAL) and Lutheran Brotherhood (LB), the two largest fraternal societies in the US:

Effective January 1, 2002, AAL and LB merged forming Thrivent for Lutherans. Organizationally and politically, this was a "marriage of equals" and was not intended to be one party acquiring the other. If accounting rules had forced one to be the 'acquirer' it certainly would not have helped the 'acquiree's' board or membership vote in favor of it.

As both AAL and LB were major insurance companies prior to the merger, at 2001 the companies reported (on statutory basis):

	AAL	LLB
Assets	$22.4 Billion	$16.8 Billion
Surplus	$1.87 Billion	$1.12 Billion
Premiums	$1.64 Billion	$1.43 Billion

Under existing US GAAP rules (since the initial merger announcement was before the GAAP deadline), this merger had the benefit for being recorded under the Pooling Method rather than the Purchase Method. However, in accordance with the GAAP pronouncements and the proposed IAS guidance it appears that the next such merger may not be so fortunate.

Question 3 – Reverse Acquisitions

Under IAS 22 *Business Combinations*, a business combination is accounted for as a reverse acquisition when an entity (the legal parent) obtains ownership of the equity of another entity (the legal subsidiary) but, as part of the exchange transaction, issues enough voting equity as consideration for control of the combined entity to pass to the owners of the legal subsidiary. In such circumstances the legal subsidiary is deemed to be the acquirer. The Exposure Draft:

(a) proposes to modify the circumstances in which a business combination could be regarded as a reverse acquisition by clarifying that for all business combinations effected through an exchange of equity interests, the acquirer is the combining entity that has the power to govern the financial and operating policies of the other entity (or entities) so as to obtain benefits from its (or their) activities. As a result, a reverse acquisition occurs when the legal subsidiary has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities (see proposed paragraph 21 and paragraphs BC37-BC41 of the Basis for Conclusions). Is this an appropriate description of the circumstances in which a business combination should be accounted for as a reverse acquisition? If not, under what circumstances, if any, should a business combination be accounted for as a reverse acquisition?

(b) Proposes additional guidance on the accounting for reverse acquisitions (see proposed paragraphs B1-B14 of Appendix B). Is this additional guidance appropriate? If not, why not? Should any additional guidance be included? If so, what specific guidance should be added?

<u>Response:</u>

We have no comment on this question, other than to acknowledge that the intention of the IASB is consistent with that of GAAP. We would recommend the inclusion of additional guidance similar to what is provided in FAS 141, paragraph 17a-17e to assist users in determining which entity has 'control' of the business combination.

FAS 141, Paragraph 17:

In a business combination effected through an exchange of equity interests, the entity that issues the equity interests is generally the acquiring entity. In some business combinations (commonly referred to as reverse acquisitions), however, the acquired entity issues the equity interests. Commonly, the acquiring entity is the larger entity. However, the facts and circumstances surrounding a business combination sometimes indicate that a smaller entity acquires a larger one. In some business combinations, the combined entity assumes the name of the acquired entity. Thus, in identifying the acquiring entity in a combination effected through an exchange of equity interests, all pertinent facts and circumstances shall be considered, in particular:

a. The relative voting rights in the combined entity after the combination—all else being equal, the acquiring entity is the combining entity whose owners as a group retained or received the larger portion of the voting rights in the combined entity. In determining which group of owners retained or received the larger portion of the *voting rights, consideration shall be given to the existence of any unusual or special voting arrangements and options, warrants, or convertible securities.*

b. *The existence of a large minority voting interest in the combined entity when no other owner or organized group of owners has a significant voting interest—all else being equal, the acquiring entity is the combining entity whose single owner or organized group of owners holds the large minority voting interest in the combined entity.*

c. *The composition of the governing body of the combined entity—all else being equal, the acquiring entity is the combining entity whose owners or governing body has the ability to elect or appoint a voting majority of the governing body of the combined entity.*

d. *The composition of the senior management of the combined entity—all else being equal, the acquiring entity is the combining entity whose senior management dominates that of the combined entity. Senior management generally consists of the chairman of the board, chief executive officer, chief operating officer, chief financial officer, and those divisional heads reporting directly to them, or the executive committee if one exists.*

e. *The terms of the exchange of equity securities—all else being equal, the acquiring entity is the combining entity that pays a premium over the market value of the equity securities of the other combining entity or entities.*

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Question 5: Provisions for Terminating or Reducing the Activities of the Acquiree

Under IAS 22, an acquirer must recognize as part of allocating the cost of a business combination a provision for terminating or reducing the activities of the acquiree (a 'restructuring provision') that was not a liability of the acquiree at the acquisition date, provided the acquirer has satisfied specified criteria. The Exposure Draft proposes that an acquirer should recognize a restructuring provision as part of allocating the cost of a business combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognized in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (see proposed paragraph 40 and paragraphs BC55-BC66 of the Basis for Conclusions). Is this appropriate? If not, what criteria should an acquirer be required to satisfy to recognize a restructuring provision that was not a liability of the acquiree as part of allocating the cost of a combination, and why?

Response:

We would agree with the proposed IASB guidance that only those liabilities (including contingent liabilities) of the acquiree that are existing at the acquisition date should be assumed in the business combination and included in the cost allocation. Necessary restructuring costs not previously recorded by the acquiree as a contingent liability should be attributed to the resulting entity once the business combination has been completed.

Question 8: Goodwill

The Exposure Draft proposes that goodwill acquired in a business combination should be recognized as an asset and should not be amortized. Instead, it should be accounted for after initial recognition at cost less any accumulated impairment losses (see proposed paragraphs 50-54 and paragraphs BC96-BC108 of the Basis for Conclusions). Do you agree that goodwill acquired in a business combination should be recognized as an asset? If not, how should it be accounted for initially, and why? Should goodwill be accounted for after initial recognition at cost less any accumulated impairment losses? If not, how should it be accounted for after initial recognition, and why?

Response:

We do agree that acquired goodwill from business combinations is an asset. However, in accordance with the special-purpose focus of NAIC SAP, the actual amount of acquired goodwill permitted in financial statements is significantly limited. This is supported by the conservatism concept endorsed by the NAIC. The regulatory nature of statutory accounting is foremost concerned with the entity's ability to pay policyholder expectations. As goodwill may not be realized at its full value during liquidation, it must be limited on the statutory balance sheet. Furthermore, our approach, which does not permit consolidated statutory financial statements or the reporting of all financial instruments at fair value, is unable to utilize the fair value of the acquiree's assets/liabilities in determining goodwill. Under statutory accounting, goodwill must be calculated by taking the difference between the cost to acquire the business and the share of book value acquired in the combination. However, we do not mean to imply that the fair value method or the recording of 100% of goodwill, as promoted by IAS and US GAAP, would be inappropriate for general-purpose financial statements.

We also agree that goodwill should reflect impairment losses. Although statutory accounting does not require annual impairment testing as promoted by the IAS and US GAAP, we do not object to this proposal as it would require companies to more actively determine if an impairment exists.

We do object to the position of both the IAS and US GAAP that allows for goodwill to continuously reside in financial statements and not be amortized. As mentioned in the latter discussion pertaining to internally generated goodwill, acquired goodwill is an asset that is consumed over time. Failing to amortize this asset erroneously permits internally generated goodwill to be presented in the financial statements. Although the useful life of acquired goodwill is not predictable, and the amount amortized may be arbitrary, properly illustrating the consumption of the asset is fundamental. Although previously rejected by the Board, we would propose requiring amortization of acquired goodwill over its estimated useful life, not to exceed a stated period of time. Given the continuous volatility of the market, we would suggest the Board to consider adopting the maximum statutory accounting time allotment of 10 years.

We have responded to the IASB invitation to comment on IAS 36, Impairment of Assets. We would request the Board to review these responses for further sentiments on the proposed accounting requirements for goodwill.

Question 9: Excess Over the Cost of a Business Combination of the Acquirer's Interest in the Net Fair Value of the Acquiree's Identifiable Assets, Liabilities and Contingent Liabilities

In some business combinations, the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognized as part of allocating the cost of the combination exceeds that cost. The Exposure Draft proposes that when such an excess exists, the acquirer should:

(a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

(b) recognize immediately in profit or loss any excess remaining after that reassessment.

(See proposed paragraphs 55 and 56 and paragraphs BC109-BC120 of the Basis for Conclusions.) Is this treatment appropriate? If not, how should any such excess be accounted for, and why?

Response:

We disagree with the Board's proposal that allows acquirer's whose cost to acquire a business is less than the determined fair value of assets and liabilities assumed to immediately recognize a gain in the income statement.

We are first concerned with the Board's initiative to allow companies an immediate gain simply by restating the company's balance sheet from book basis to fair value. Using book value as the basis of measuring assets and liabilities in a business combination is a more conservative method that would less likely result in such immediate gains.

Furthermore, we are concerned with the Board's proposal to recognize 'negative' goodwill as an immediate gain. For those transactions in which negative goodwill does exist we would propose recording this item as a contra-asset subject to amortization over the period in which the acquiring entity benefits economically or a period not to exceed 10 years. By recording this transaction in a manner consistent with the treatment of positive goodwill *(see response to question 8)* the financial statements will convey the appropriate impact of the business combination.

Additional Comment – Internally Generated Goodwill

We would disagree with the Board's movement to allow internally generated goodwill in the balance sheet for certain entities. As recognized by the Board, acquired goodwill is an asset that is consumed over time. As such, failing to amortize goodwill essentially allows entities to consume the acquired goodwill and yet continue to report an asset. Since the acquired goodwill has been consumed, the resulting asset can only be deemed internally generated goodwill.

Since the Board has prohibited the recognition of internally generated goodwill, it appears that the Board is bestowing favorable treatment to those entities that have acquired an entity through a business combination and recognized acquired goodwill. We feel compelled to remind the Board that the internally generated goodwill by the entity who originally acquired goodwill in a past business combination is not different from internally generated goodwill by any other entity. As stated by the Board, internally generated goodwill is not an asset. Therefore, internally generated goodwill should not be included on the financial statements in any circumstances.

Furthermore, we believe the Board's decision to allow for the non-amortization of goodwill is inherently weak. Although the useful life of goodwill is not predictable, and the amortized amount may be an arbitrary estimate, the practice appropriately illustrates the consumption of an asset. By allowing the goodwill to remain, the consumed asset continues to be represented, and the financial statements become erroneous.

We appreciate the opportunity to comment on this IASB initiative. Should you have any questions, please contact me at 501-371-2667, or Julie Gann (NAIC Staff) at 816-783-8125.

Sincerely,

Mel Anderson
Chair, NAIC International Accounting Standards Working Group

March 19, 2003

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, First Floor
London EC4M 6XH United Kingdom

Dear Sir David and Members of the Board:

Thank you for the opportunity to comment on the Exposure Draft of proposed amendments to IAS 36: *Impairment of Assets* and IAS 38: *Intangible Assets*. On behalf of the International Accounting Standards Working Group (IASWG) of the National Association of Insurance Commissioners (NAIC), I am pleased to provide you with remarks on the proposed revisions in response to your Invitation to Comment.

IAS 36 - Impairment of Assets

Question 1 – Frequency of Impairment Tests

Are the proposals relating to the frequency of impairment testing for intangible assets with indefinite useful lives and acquired goodwill appropriate (see proposed paragraphs 8 and 8A and paragraphs C6, C7 and C41 of the Basis for Conclusions)? If not, how often should such assets be tested for impairment, and why?

Response:

While statutory accounting guidance does not specifically require the frequency of impairment testing on intangible assets or goodwill, we do not object to the IAS proposal that would require entities to more actively identify intangible asset impairments. We require entities to record impairment losses if it is probable that an asset has been impaired and the amount of loss can be reasonably estimated.

We disagree with the IAS proposal to not require the amortization of goodwill. Further information on this issue is provided in the NAIC Comment Letter over ED3 *Business Combinations*.

Question 2 – Intangible Assets with Indefinite Useful Lives

The Exposure Draft proposes that the recoverable amount of an intangible asset with an indefinite useful life should be measured, and impairment losses (and reversals of impairment losses) for such assets accounted for, in accordance with IAS 36 for assets other than goodwill (see paragraphs C10-C11 of the Basis for Conclusions). Is this appropriate? If not, how should the recoverable amount be measured, and impairment losses (and reversals of impairment losses) be accounted for?

Response

Although we do not completely agree with the intangible asset impairment and reporting proposals of the IASB, we do not object to the IASB initiative to offer consistent measurement techniques or accounting methods for intangible/identifiable assets on a general-purpose financial statement approach.

Reversals of impairment losses are addressed in our reply to Question 6.

Question 3a – Measuring Value in Use

Should an asset's value in use reflect the elements listed in 25A? If not, which elements should be excluded or should any additional elements be included? Also, should an entity be permitted to reflect those elements either as adjustments to the future cash flows or adjustments to the discount rate (see proposed paragraph 26A and paragraphs C66 and C67 of the Basis for Conclusions)? If not, which approach should be required?

Response:

Even though we do not provide specific guidance on the components of a present value measurement, we do not object to the elements provided in paragraph 25A of the exposure draft as they are essentially identical to those listed with the FASB Statement Financial Accounting Concepts No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*.

FASB Concept Statement No. 7 - Components of Present Value Measurement

a. *An estimate of the future cash flow, or in more complex cases, series of future cash flows at different times*
b. *Expectations about possible variations in the amount or timing or those cash flows*
c. *The time value of money, represented by the risk-free rate of interest*
d. *The price for bearing the uncertainty inherent in the asset or liability*
e. *Other, sometimes unidentifiable, factors including illiquidity and market imperfections.*

Question 3b – Measuring Value in Use

Should the assumptions on which cash flow projections are based take into account both past actual cash flows and management's past ability to forecast cash flows accurately (see proposed paragraph 27(a)(ii) and paragraphs C66 and C67 of the Basis for Conclusions)? If not, why not?

Response:

We agree that management's ability to forecast cash flows accurately as well as actual past cash flows are integral components in determining reliable cash flow projections. Statutory guidance specially indicates that all available evidence shall be considered in developing estimates of future cash flows.

Question 3c – Measuring Value in Use

Is the additional guidance in proposed Appendix B to [draft] IAS 36 on using present value techniques in measuring an asset's value in use appropriate? If not, why not? Is it sufficient? If not, what should be added?

<u>Response:</u>

The guidance provided in Appendix B is almost identical to the guidance provided in paragraphs 39-53 of FASB Statement of Financial Accounting Concepts No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*. As such, we do not object to the inclusion of this guidance.

One element that appears to be excluded from the IASB guidance that is referenced in both US GAAP guidance and SAP is the statement specifying that cash flow assumptions and related discount rates should primarily be driven from arm's-length transactions. This element is essential in properly illustrating future cash flows and appropriate discount rates for those willing parties conducting business. Routinely utilizing future cash flows and discount rates based on the favorable conditions provided by transactions conducted with related parties or others not considered to be at arm's-length would not convey an adequate presentation of present value.

Question 4a: Allocating goodwill to cash-generating units

Should the allocation of goodwill to one or more cash-generating units result in the goodwill being tested for impairment at a level that is consistent with the lowest level at which management monitors the return on the investment in that goodwill, provided such monitoring is conducted at or below the segment level based on an entity's primary reporting format (see proposed paragraphs 73-77 and paragraphs C18-C20 of the Basis for Conclusions)? If not, at what level should the goodwill be tested for impairment, and why?

<u>Response:</u>

Similar to the proposed IASB guidance, US GAAP recommends dividing goodwill amongst 'reporting units' (operating segment or component) at the date of acquisition. Furthermore, US GAAP stipulates that goodwill should be tested for impairment at the reporting unit level. We also agree that goodwill impairments should be attributed and evaluated separately for each transaction and with the respective reporting entity.

Question 4b: Allocating goodwill to cash-generating units

If an entity disposes of an operation within a cash-generating unit to which goodwill has been allocated, should the goodwill associated with that operation be included in the carrying amount of the operation when determining the gain or loss on disposal (see proposed paragraph 81 and paragraphs C21-C23 of the Basis for Conclusions)? If not, why not? If so, should the amount of the goodwill be measured on the basis of the relative values of the operation disposed of and the portion of the unit retained or on some other basis?

Response:

The remaining goodwill should be included in the carrying amount of the operation when determining the gain or loss on disposal. However, in those instances in which goodwill is associated with impaired assets (including assets held for disposal), the carrying amount of the identified goodwill shall be eliminated before reducing the carrying amounts of the impaired assets.

Question 5a: Determining whether goodwill is impaired

The exposure draft proposes that the recoverable amount of a cash-generating unit to which goodwill has been allocated should be measured as the higher of the unit's value in use and net selling price (see proposed paragraphs 5 (definition of recoverable amount) and 85 and paragraph C17 of the Basis for Conclusions). Is this appropriate? If not, how should the recoverable amount of the unit be measured?

Response:

Our accounting guidelines are similar to the US GAAP guidance that utilizes the asset's (reporting unit's) fair value in determining whether an impairment has occurred. If fair value does not exceed the carrying amount of the investment or if there is evidence indicating inability to sustain earnings which would justify the carrying amount, an impairment shall be considered to have occurred.

From review of the definition provided in paragraph 5 of IAS 36, the 'recoverable amount' is the higher of the asset's net selling price and value in use. It appears that the definition of 'net-selling price' (the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less cost of disposal) is not substantially different from the definition of an asset's fair value.

Although we promote the existing requirements of U.S. GAAP and NAIC SAP, which requires impaired assets to be written down to fair value, we would not necessarily object to the IASB proposal to write impaired assets down to the 'net-selling-price'. We acknowledge that the consideration of the 'costs to dispose' in determining the impaired asset's value would present a higher standard and a more conservative approach. However, if only the fair value threshold was used, the entity would still be properly conveying an appropriate asset value in the financial statements. As fair value is an acceptable method, and as we recognize the need for convergence amongst the National Standard Setters, we would recommend the IASB to adhere to the U.S. GAAP approach.

Question 5b: Determining whether goodwill is impaired

The exposure draft proposes the use of a screening mechanism for identifying potential goodwill impairments, whereby goodwill allocated to a cash-generating unit would be identified as potentially impaired only when the carrying amount of the unit exceeds its recoverable amount (see proposed paragraph 85 and paragraphs C42-C51 of the Basis for Conclusions). Is this an appropriate method for identifying potential goodwill impairments? If not, what other method should be used?

<u>Response:</u>

We would support the screening mechanism established in paragraph 85 of IAS 36. The method of comparing the reporting unit's fair value to its carrying amount should be a preliminary procedure to determine if an impairment has occurred. An entity would need to only conduct procedures to ascertain impairment if the reporting unit's carrying amount exceeds the fair value.

Our response uses the terminology of 'fair value' rather than 'recoverable amount'. Please refer to the response to Question 5a for further discussion on this issue.

Question 5c: Determining whether goodwill is impaired

The exposure draft proposes that if an entity identifies goodwill allocated to a cash-generating unit as potentially impaired, the amount of any impairment loss for that goodwill should be measured as the excess of the goodwill's carrying amount over its implied value measured in accordance with proposed paragraph 86 (see proposed paragraphs 85 and 86 and paragraphs C28-C40 of the Basis for Conclusions). Is this an appropriate method for measuring impairment losses for goodwill? If not, what method should be used, and why?

<u>Response:</u>

Although NAIC SAP does not specifically address an 'implied value of goodwill' we would support this test which attributes the fair value of a reporting unit to all assets and liabilities within the unit to determine if the 'implied value' is in excess of their assigned amounts.

Question 6: Reversals of impairment losses for goodwill

The Exposure Draft proposes that reversals of impairment losses recognized for goodwill should be prohibited (see proposed paragraph 123 and paragraphs C62-C65 of the Basis for Conclusions). Is this appropriate? If not, what are the circumstances in which reversals of impairment losses for goodwill should be recognized?

<u>Response:</u>

We agree with the Board's decision to prohibit reversals of goodwill impairments, given that the decline in the entity's fair value was considered to be other than temporary. However, we object to the current guidance in IAS 36 that continues to allow impairment reversals for individual assets and cash-generating units other than goodwill. Once impaired assets (including, but not limited to goodwill) have been written down to fair value, the fair value recorded becomes the cost basis for the asset. We would request the Board to consider adopting the NAIC SAP and US GAAP guidance that prohibits the restoration of a previously recognized impairment loss for all intangible and identifiable assets.

Question 7: Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

The Exposure draft proposes requiring a variety of information to be disclosed for each segment, based on an entity's primary reporting format, that includes within its carrying amount goodwill or intangible assets with indefinite useful lives (see proposed paragraphs 134 and paragraphs C69-C82 of the Basis for Conclusions).

1. Should an entity be required to disclose each of the items in proposed paragraph 134? If not, which items should be removed from the disclosure requirements, and why?

2. Should the information to be disclosed under proposed paragraph 134 be disclosed separately for a cash-generating unit within a segment when one or more of the criteria in proposed paragraph 137 are satisfied? If not, why not?

Response:

We do not object to the disclosure requirements included within paragraphs 134 and 137 of IAS 36. Although these disclosure requirements are more extensive than our statutory accounting requirements, they are not significantly different from those required under US GAAP.

Additional Comment – Recording of Goodwill

As the NAIC Statutory Accounting Principles (SAP) guidelines relate to the special-purpose characteristics of insurance companies, we adhere to a different approach for recording goodwill than US GAAP and the recommended IAS guidelines. Our approach, which focuses on conservatism and the ability of companies to meet policyholder obligations, does not support recording the full extent of goodwill on the balance sheet. Furthermore, our approach continues to require amortization of goodwill over a period not to exceed 10 years. As goodwill is recorded as an asset, statutory restrictions are necessary to provide a margin of protection for policyholders.

As we understand that this is a regulatory approach and is unable to be included as an international standard, we have provided comment on the proposed IAS revisions utilizing both the NAIC SAP and a general-purpose financial statement approach.

NAIC Conservatism Concept: *Conservative valuation procedures provide protection to policyholders against adverse fluctuations in financial condition or operating results.*

IAS 38 - Intangible Assets

NAIC SAP, as a special-purpose financial statement, does not permit intangible assets, other than goodwill, to be recorded as assets on the balance sheet. In accordance with statutory accounting, and the conservatism concept, all trade names and other intangible assets are excluded from the balance sheet ('nonadmitted') as they are not readily marketable and are unavailable to satisfy policyholder expectations. Goodwill is permitted as an 'admitted asset' in the balance sheet, however the amount actually 'admitted' in the balance sheet is significantly restricted.

Given our special-purpose focus, and the IASB focus on general-purpose financial statements, we have no comment on the IAS 38: *Intangible Assets* Invitation to Comment.

We have included a comment pertaining to internally generated goodwill in our comment letter response to the IASB ED3: Business Combinations.

We appreciate the opportunity to comment on this IASB initiative. Should you have any questions, please contact me at 501-371-2667, or Julie Gann (NAIC Staff) at 816-783-8125.

Sincerely,

Mel Anderson
Chair, NAIC International Accounting Standards Working Group