making progress . . . together

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

EXECUTIVE HEADQUARTERS

2301 McGee Street
Suite 800
Kansas City MO
64108-2662
VOICE 816-842-3600
FAX 816-783-8175

GOVERNMENT RELATIONS

Hall of the States
444 North Capitol St NW
Suite 701
Washington DC
20001-1509
VOICE 202-624-7790
FAX 202-624-8579

SECURITIES VALUATION OFFICE

48 Wall Street
6th Floor
New York NY
10005-2906
VOICE 212-398-9000
FAX 212-382-4207

WORLD WIDE WEB

www.naic.org

May 19, 2006

Director, Accounting Standards
Canadian Accounting Standards Board
277 Wellington Street West,
Toronto, Ontario M5V 3H2 Canada

Email: ed.accounting@cica.ca

Dear Members and Staff of the AcSB:

Thank you for the opportunity to comment on the November 2005 Discussion Paper *Measurement Bases for Financial Accounting – Measurement on Initial Recognition*. On behalf of the International Accounting Standards Working Group (IASWG) of the National Association of Insurance Commissioners (NAIC), I am pleased to provide you comments in response to your Invitation to Comment.

Invitation to Comment

Our comments have been organized in a manner consistent with the questions outlined within the Invitation to Comment. Additionally, we have provided the following general comment on the scope of this Discussion Paper:

In reviewing the scope of the investigation completed and documented within the Discussion Paper, we have identified that this paper has not considered issues specific to particular industries. Although we understand the inherent limitations in researching a topic as expansive as this, we feel that it is extremely important that the conclusions reached from the generic consideration of this topic not be predisposed to any specific industry. As each industry has specific issues that may influence the consideration of which measurement bases would be most appropriate, further study and consideration should be completed to ensure the most relevant and reliable financial statement presentation for each specific industry.

The NAIC recommends that coordination with other standard-setter projects (i.e., IASB and FASB) that have an impact on fair value should occur to prevent conflicting guidance and promote accounting standard convergence.

Question 1 – Do you agree that the list of identified possible measurement bases sets out the bases that should be considered? If not, please indicate and explain any changes that you would make? *(Paragraphs 33-51 of the condensed version and paragraphs 69-74 of the main discussion paper.)*

Response: The NAIC does not disagree that the possible bases for initial recognition include historical cost, current cost, reproduction cost, replacement cost, net realizable value, value in use, fair value, and deprival value. We would agree with the statement made in the paragraphs identified that present value is not a measurement basis in itself, but is a measurement technique that can be utilized to make estimates under several of the identified measurement bases.

The NAIC appreciates that the paper includes additional considerations relative to the measurement date of initial recognition and agrees that the paper's presumption of measurement as of the time an asset or liability is initially recognized should be re-evaluated in future studies of recognition and re-measurement.

Question 2 – Do you agree with the working terms and definitions, and supporting interpretations, of each of the identified measurement bases? If not, please explain what changes you would make. In particular, do you have any comments on the term "fair value" and its definition? *(Paragraphs 33-51 of the condensed version and paragraphs 77-96 of the main discussion paper.)*

Response: Although various measurement bases have been designed to accommodate specific-purpose Statutory Accounting Principles (SAP) for insurance entities within the United States, the NAIC does not disagree with the definitions and interpretations of the identified measurement bases for general-purpose financial statements included in this Discussion Paper as follows:

Historical cost – Assets are recorded at the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the fair value of the consideration received in exchange for incurring the obligations at the time they were incurred. The NAIC notes the proposed definition of historical cost excludes the phrase "…or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents to be paid to satisfy the liability in the normal course of business". The exclusion is based on the grounds that it seems to be describing an expected value measurement rather than one that is consistent with the historical cost objective. Liabilities of this nature, while representing amounts that are expected to be paid, are derived from historical operations of the business, where the consideration received is not monetary. In the case of income taxes, the consideration is the authorization to do business in a particular jurisdiction. The NAIC recommends the inclusion of the above phrase within the definition of a liability. In addition, the NAIC recommends that the Board consider adding clarifying guidance to describe historical cost for certain assets carried at amortized or depreciated cost. For example, if historical cost is the measurement basis on initial recognition for furniture and equipment in an exchange transaction, would the amount be the cost of the item at its original date of purchase or the net depreciated cost at the date of the exchange?

Fair value – The amount for which an asset or liability could be exchanged between knowledgeable, willing parties in an arm's length transaction. The NAIC does not disagree with the presumption that the term and definition of fair value should be interpreted to embody the market value measurement objective. However, the NAIC notes that the Financial Accounting Standards Board (FASB) has concluded there may exist multiple markets for assets and liabilities with differing prices and has further specified the fair value to be derived from an orderly transaction in the most advantageous market. In addition, the FASB has taken an exit price position that fair value of the asset or liability represents the price that would be received for the asset or paid to transfer the liability. While this Discussion Paper incorporates language that does not take a position for either pricing mechanism, the NAIC encourages the IASB to address the issue of an entry or exit price strategy in the spirit of international accounting standards convergence.

The NAIC notes that while this change to the definition of fair value would appear to remove the concept of settlement of a liability, with a possible impact upon the measurement of insurance liabilities, the NAIC emphasizes that the principle of ultimate settlement, even following transfer, is critical. In the case of insurance liabilities, any transfer or exchange would need to be made to an entity capable of accepting the transfer, which, in the case of a regulated industry like insurance, implies that the transferee would also need to be regulated and capable of settling the obligation to the claimant/beneficiary. Accordingly, the NAIC believes that any transfer notion would be strongly influenced by the settlement obligation that the transferee would undertake.

Question 3 – It is proposed that there are two fundamental sources of differences between the identified bases for measuring assets and liabilities on initial recognition:

a. **market versus entity specific measurement objectives, and**

b. **differences in defining value-affecting properties of assets and liabilities.**

Do you agree that these are the fundamental differences between asset and liability measurement bases on initial recognition? If not, please indicate the fundamental sources of differences you have identified, and provide the basic reasons for your views. For any different fundamental sources you have identified, please indicate how these might be examined or tested. *(Paragraph 52 of the condensed version and paragraph 97 of the main discussion paper. This proposal and its conceptual implications are the subject of chapters 4 and 5.)*

Response: The NAIC does not disagree with the identified fundamental differences between asset and liability measurement bases on initial recognition. As stated in our responses to questions 5 and 14, it is apparent that this Discussion Paper views entity-specific measurement to be inferior to market value measurements. The NAIC does not disagree that fair value is the most relevant measure of assets and liabilities on initial recognition where an efficient active market exists for the assets and liabilities. In the absence of efficient active markets, reporting entities may be able to use private empirical data to measure the value of an asset or liability, which would be superior to an estimated market price based only on information available to marketplace participants. We believe if such private information would be demanded by and provided to counterparties (i.e., marketplace participants) in a transfer of an asset or liability, it should be included in the determination of fair value where there is no active market. If the IASB decides use of private information cannot be considered in determining fair value, then the combination of entity-specific and market value inputs would be superior to using only market value inputs in some cases. In addition, the NAIC is of the opinion that management's intention should not be reflected in the valuation of assets or liabilities. Therefore, use of private empirical data should be distinguished somehow from the use of management's intentions in the initial measurement of assets and liabilities. As a result, the NAIC proposes that a third measurement basis, Management's Intention Measurement Objective, should be considered to better differentiate between entity-specific measurements that utilize private empirical data from those that determine value from intended use of the asset or liability, with this third approach being far less desirable than market value and entity-specific measurement objectives.

Question 4 – The paper analyzes the market value measurement objective and the essential properties of market value.

a. **Do you believe that the paper has reasonably defined the market value objective and the essential properties of market value for financial statement measurement purposes? If not, please explain why not, and what changes you would propose, or different or additional considerations that you think need to be addressed.** *(Paragraphs 54-56 and 105-112 of the condensed version and paragraphs 99-110 and 236-241 of the main discussion paper.)*

   Response: The NAIC does not disagree with the characteristics of an efficient market as defined within the Discussion Paper. We also do not disagree on the initial observation regarding the relevance of market prices for accounting proposes given their vulnerability to market imperfections and the 'human' element related to possible irrational behavior, regardless of the extent of information available. We would agree that adjustments to pure market rates must involve 1) taking a view different from the market, or 2) instituting an arbitrary, subjective adjustment process, and that both of these options would be characteristics of entity-specific measurements. Given the prevalence of market imperfections resulting from irrational behavior and inefficient markets, market price of an asset or liability may not be the best indicator of fair value.

b. **Do you agree with the proposed definition of "market"? If not, please explain why you disagree, and indicate any changes you would make and any issues that you believe should be given additional consideration.** *(Paragraphs 55-56 of the condensed version and paragraphs 107-110 of the main discussion paper.)*

   Response: Although the NAIC primarily agrees with the definition of market provided within paragraph 107, we would propose an added element for a more accurate definition:

   Market – A body of knowledgeable, willing, and able, arm's length parties carrying out sufficiently extensive exchange transactions in an asset or liability to achieve its equilibrium price, reflecting the market expectation of earning or paying the market rate for commensurate risk on the measurement date.

   Our inclusion of the term 'able' within the definition above is intended to restrict the use of this definition to those who are unable to participate in market transactions due to regulatory requirements. For example, insurance entities do not have the ability to transfer contract liabilities to others through marketplace transactions. Insurance entities have the ability to manage and transfer risk related to contract liabilities through reinsurance transactions, but the original insurer retains the liability established from the original contract. (Although there are a few exceptions to this premise related to mergers and acquisitions or the transfer of liabilities from an insolvent insurer, these transactions are arranged and/or approved by the regulatory authorities and not part of marketplace transactions.)

   We would agree that the determination of a 'knowledgeable' party should be restricted to publicly available information and expertise, without consideration of the extent of private information acquired by any party. We would also agree that 'willing arm's length parties' should pertain to those whose motivations and abilities are determined by competitive market condition and their individual profit-maximization goals, risk preferences, and expectations. We would agree that it should not include any that are under compulsion to act, regardless of the reasons.

c. **Do you agree with the fair value measurement objective as proposed, and its derivation from the market value measurement objective?** *(Paragraph 102 of the condensed version and paragraphs 111, 228, and 229 of the main discussion paper.)*

Response: The NAIC agrees that quoted market prices in active markets are the best evidence of fair value and agrees that this is consistent with the overall fair value objective defined in paragraph 111 indicating that fair value is the representation of market value on a measurement date where active, efficient markets exist.

However, active, efficient markets do not always exist for all assets and liabilities and the fair value objective discussed in paragraph 111 extends beyond situations in which observable market prices exist. The objective progresses to include the estimation of an exchange price that would result <u>if</u> there was a body of knowledgeable, willing, and able, arm's length parties carrying out sufficiently extensive exchange transactions to achieve the same equilibrium value for the asset or liability, given its liquidity limitations, established within a market. Although established as an 'objective' of fair value…without an observable market price, it would appear that the estimation of an exchange price to 'calculate' fair value is more characteristic of an entity-specific measurement objective. This Discussion Paper appears to consider only market value inputs as objective and reliable. In addition, the Market Value Measurement Objective appears to consider all measurements using Entity-Specific Measurement Objectives that differ from market value are subjective and less reliable. However, reporting entities may have private empirical data that can be proven as reliable by third parties. The reporting entity may use this data, which may not be available to other market participants, to better measure an asset or liability than measurements obtained from a market value measurement basis.

The NAIC notes there is no deep liquid secondary market for insurance liabilities. To the extent that a fair value measurement objective were to be proposed for such liabilities in the future, insurance enterprises would need to utilize models and actuarial techniques to derive a valuation. As mentioned previously, many of the inputs to such models would be unobservable market inputs that may be difficult to distinguish from entity inputs.

Question 5 – Do you agree with the definition and discussion of entity-specific measurement objectives and their relationship to management intentions? If not, please explain why you disagree. *(Paragraph 57-58 of the condensed version and paragraphs 112-121 of the main discussion paper.)*

Response: The NAIC does not disagree with the initial representation of Entity-Specific Measurement beginning in paragraph 112 of the main discussion paper. However, the NAIC notes it is very apparent that this discussion paper considers entity-specific measurement to be inferior to market value measurement. The discussion paper acknowledges "the entity might hold information, trade secrets, or process that its management expects will enable it to realize, or pay, cash flows that differ from those expected by others in the marketplace", but later discusses these as perceived advantages or disadvantages and only time will tell whether the expected outcomes are realized. As stated in our response to question 3, in the absence of efficient active markets, reporting entities may be able to use private empirical data to measure the value of an asset or liability, which would be superior to an estimated market price based only on information available to marketplace participants. We believe if such private information would be demanded by and provided to counterparties (i.e., marketplace participants) in a transfer of an asset or liability, it should be included in the determination of fair value where there is no active market. If the IASB decides use of private information cannot be considered in determining fair value, then the combination of entity-specific and market value inputs would be superior to using only market value inputs in some cases.

As noted in our response to question 3, the NAIC is of the opinion that management's intention should not be reflected in the valuation of assets or liabilities. While the NAIC does not argue that information on management's intention may be useful to investors and creditors, it is less relevant and certainly less reliable than market values. The NAIC proposes that management's intentions have a perceived value that should not be reflected in measurement of assets and liabilities until realized.

Question 6 – Do you agree with the comparison of market and entity-specific measurement objectives and with the proposed conclusion that the market value measurement objective has important qualities that make it more relevant than entity-specific measurement objectives for assets and liabilities on initial recognition? If not, please explain your views. *(Paragraphs 59-61 of the condensed version and paragraphs 122-129 of the main discussion paper.)*

Response: Generally yes, subject to our previous responses to questions 3 and 5.

Question 7

a. **It is reasoned that there can only be one market (fair) value for an asset and liability on a measurement date. Do you agree with this conclusion? If not, please explain why you disagree.** *(Paragraph 62 of the condensed version and paragraphs 131-138 of the main discussion paper.)*

    Response: The NAIC notes that while the discussion paper has based its conclusions on the premise that there is only one market and market value for assets and liabilities, the paper refers to conflicting evidence to this presumption. The NAIC does not disagree with this conclusion where there is an efficient active market for the asset or liability. However, see our previous responses where an efficient active market does not exist.

b. **It is proposed that differences between apparent market values for seemingly identical assets or liabilities on initial recognition may be attributable to:**

    i. *Differences between the value affective properties of assets or liabilities traded in different markets, or*
    ii. *Entity-specific charges or credits.*

    However, the paper notes the existence of multiple markets for some assets and liabilities, and the possibility that they may be due to market access restrictions that require further investigation. Do you agree with these proposals, within the caveats and discussion presented? If not, please explain why you disagree. (Paragraphs 63 and 74-82 of the condensed version and paragraphs 95-109 and 131-138 of the main discussion paper.)

    Response: The NAIC notes the discussion paper proposes the differences in market values are attributable to (a) value-affecting properties of different markets and (b) entity-specific charges or credits. The NAIC believes it to be inconsistent to include entity-specific charges or credits as an impacting element to a market value. It appears these charges or credits are attributable to the market and thus may be utilized by the reporting entity to determine the most advantageous market in which to transact.

Question 8 - Do you agree that a promise to pay has the same fair value on initial recognition whether it is an asset or a liability, and that the credit risk associated with a promise to pay enters into the determination of that fair value with the same effect whether it is an asset or liability? If you do not agree, please explain the basis for your disagreement. *(Paragraph 65 of the condensed version and paragraphs 142-147 of the main discussion paper.)*

Response: No, for liabilities valued using a valuation technique for inputs less than Level 1 in the FASB's Fair Value Hierarchy[1], the NAIC believes this distorts the true financial position of the reporting entity for those financial liabilities that cannot be traded and will result in incomparability of two companies that otherwise could be compared without this measurement requirement. In particular, the NAIC believes that insurance liabilities cannot be settled or traded in a manner that reflects the issuer's own credit standing.

Allowing for the issuer's own creditworthiness is incompatible with the valuation of insurance liabilities. Consistently endeavoring to settle policyholder liabilities at a lower level due to credit rating changes would be illegal and violate state policyholder protection laws such as unfair trade practices, and could ultimately lead to regulatory intervention up to and including receivership or liquidation. As such, settlement of liabilities at consistently low levels due to credit standing could breach the underlying going concern assumption. Insurers cannot generally exit their liabilities except through settlement with the policyholder/claimant in accordance with the terms of the insurance contract. Therefore, the actual exit price for an insurer's liabilities cannot, both in practice and legally, reflect its credit standing.

In addition, even in the theoretical case where trading a liability based on the issuer's own credit standing is not illegal, it would appear that a transferee of a liability would not accept a lower fee from a transferor (issuer) with a lower credit standing, but instead, the issuer's credit standing should be irrelevant to the fee demanded. On the contrary, in a less than efficient market, a transferee could likely demand a higher fee for taking on the liabilities from a lower rated issuer versus a higher rated issuer, as the latter would tend to have more bargaining power. It is the NAIC's opinion that consideration of the credit standing of the issuer of a liability for liability valuation purposes for financial reporting, where the issuer of that liability purports to be a going concern is inappropriate, misleading and does not faithfully represent the economic reality. As such, the NAIC strongly suggests rejection of further consideration of this concept.

Question 9 - The paper makes the following proposals with respect to defining the unit of account of the asset or liability to be measured on initial recognition:

a. **The appropriate individual item or portfolio unit of account on initial recognition is generally the unit of account in which the reporting entity has acquired the asset or incurred the liability.** *(Paragraphs 67-70 of the condensed version and paragraphs 149-154 of the main discussion paper.)*

[1] As included and defined in the FVM Working Draft—Revised 3/15/2006 for the Proposed Statement of Financial Accounting Standards No. 15X, *Fair Value Measurements*.

b. **The appropriate level of aggregation for non-contractual assets on initial recognition is the lowest level of aggregation at which an identifiable asset is ready to contribute to the generation of future cash flows through its sale or use.** *(Paragraphs 71-73 of the condensed version and paragraphs 157-161 of the main discussion paper.)*

Do you agree with these proposals within the caveats and discussion presented? If not, please explain why, and in what respects, you disagree.

Response: The NAIC believes that the proper unit of account at initial measurement requires more research. For example, in some circumstances, it may be appropriate to use the value of an individual item or contract as the unit of account with respect to a group of items or contracts, even if those items were purchased or transferred together. In addition, in the event a reporting entity bifurcates an acquired portfolio or aggregates acquired individual items, the NAIC recommends additional guidance should be developed to ensure this process is consistently applied.

Question 10 - It is suggested that, in many cases, the best market source on initial recognition is the market in which the asset or liability being measured was acquired or issued. However, some significant situations are noted in which a different source may be appropriate, and research is proposed into possible multiple markets. Do you agree that the paper provides a reasonable analysis of market sources and their implications on initial recognition? If not, please provide reasons for disagreeing, and indicate any additional analysis or research you would think should be carried out. *(Paragraphs 75-82 of the condensed version and paragraphs 162-182 of the main discussion paper.)*

Response: The NAIC agrees that more research should be carried out relative to the issue of multiple markets. Multiple markets do in fact exist and the NAIC recommends the consideration of FASB's use of "most advantageous"[2] market as discussed in this paper.

Question 11 - The paper concludes that transaction costs, as defined, are not part of the fair value of an asset or liability on initial recognition. Do you agree with the proposed definition of transaction costs? Do you agree with the above conclusion? If you disagree, please explain your reasons and what you believe the implications of your different view would be for fair value measurement of assets and liabilities on initial recognition. *(Paragraphs 86-87 of the condensed version and paragraphs 193-200 of the main discussion paper.)*

Response: The NAIC does not disagree with the definition of transaction costs included in the discussion paper.

Question 12 - Do you agree with the proposal that, when more than one measurement basis achieves an acceptable level of reliability, the most relevant of these bases should be selected? If not, please explain why you disagree, and indicate how you would settle trade-offs between the relevance and reliability of alternative measurement bases. *(Paragraph 89 of the condensed version and paragraph 202 of the main discussion paper)*

Response: The NAIC does not disagree that when more than one measurement basis achieves an acceptable level of reliability, the most relevant of these bases should be selected.

---

[2] As included and defined in the FVM Working Draft—Revised 3/15/2006 for the Proposed Statement of Financial Accounting Standards No. 15X, *Fair Value Measurements*.

Question 13 - Do you agree with the two proposed sources of limitations on measurement reliability — estimation uncertainty and economic indeterminacy — and supporting discussion? If not, please explain your view. *(Paragraphs 90-100 of the condensed version and paragraphs 204-216 of the main discussion paper.)*

Response: The NAIC does not disagree with the proposed sources of limitation on measurement reliability, that being estimation uncertainty and economic indeterminacy.

Question 14 - Do you agree that fair value is the most relevant measure of assets and liabilities on initial recognition of assets and liabilities, and therefore should be used when it can be estimated with acceptable reliability? If not, please explain why. *(Analyses of fair value and alternative bases in chapter 7, and discussion of measurement date on initial recognition in paragraphs 179-180 of the condensed version and paragraphs 410-415 of the main discussion paper.)*

Response: The NAIC does not disagree that fair value is the most relevant measure of assets and liabilities on initial recognition where an efficient active market exists for the assets and liabilities. As stated in previous responses, in the absence of efficient active markets, reporting entities' use of private empirical data to measure the value of an asset or liability would be superior to an estimated market price based only on information available to marketplace participants. Please also refer to our responses to questions 3 and 5.

Question 15 - Do you agree that fair value is not capable of reliable estimation in some common situations on initial recognition? *(Paragraph 104 of the condensed version and paragraphs 232-277 of the main discussion paper.)* **More specifically, do you agree that:**

Please provide explanations for your views on these questions if they differ significantly from the conclusions and supporting arguments presented in the paper.

a. **A single transaction exchange price should not be accepted to be equal to fair value unless there is persuasive evidence that it is, and** *(Paragraphs 106-114 of the condensed version and paragraphs 243-252 of the main discussion paper.)*

Response: The NAIC does not disagree that fair value is not capable of reliable estimation in some common situations on initial recognition.

b. A measurement model or technique cannot be considered to achieve a reliable estimation of the fair value of an asset or liability when the estimate depends significantly on entity-specific expectations that cannot be demonstrated to be consistent with market expectations? *(Paragraphs 115-118 of the condensed version and paragraphs 263-268 of the main discussion paper.)*

Response: The NAIC does not disagree that estimates that depend significantly on entity-specific expectations that cannot be demonstrated to be consistent with market expectations cannot be considered a reliable estimate of fair value. However, estimates utilizing private empirical data in the valuation should be considered reliable estimates of fair value in the absence of an efficient active market.

Question 16 - Do you agree with the paper's analyses and conclusions with respect to the comparative relevance and reliability of:

- **a. historical cost;** *(Paragraphs 120-137 of the condensed version and paragraphs 281-319 of the main discussion paper.)*

- **b. current cost - reproduction cost and replacement cost;** *(Paragraphs 138-154 of the condensed version and paragraphs 320-361 of the main discussion paper.)*

- **c. net realizable value;** *(Paragraphs 155-161 of the condensed version and paragraphs 362-375 of the main discussion paper)*

- **d. value in use; and** *(Paragraphs 162-169 of the condensed version and paragraphs 376-392 of the main discussion paper.)*

- **e. deprival value?** *(Paragraphs 170-178 of the condensed version and paragraphs 393-409 of the main discussion paper.)*

- **f. Please provide reasons for any disagreements, and any advice you may have as to additional analysis or research that you believe should be carried out.**

Response: Please see our response to question 2.

Question 17 - The paper discusses substitutes for fair value when the fair value of an asset or liability cannot be reliably estimated on initial recognition. Do you agree that, when other measurement bases are used as substitutes for fair value on initial recognition, they should be applied on bases as consistent as possible with the fair value measurement objective? If not, please explain why. *(Paragraph 186 of the condensed version and paragraph 417 of the main discussion paper.)*

Response: The NAIC reiterates that in the absence of an efficient active market, a reporting entity may possess private empirical data that should be used to better measure the value of an asset or liability than the information publicly available to marketplace participants. As such, the NAIC does not believe the current proposed measurement hierarchy would appropriately address these situations, apparently considering measurements, such as this, inferior to estimates based only on market information.

Question 18 - Do you agree with the proposed hierarchy for the measurement of assets and liabilities on initial recognition? If not, please explain your reasons for disagreeing and what alternatives you might propose. *(Chapter 8)*

Response: Generally yes, subject to our responses to questions 3 and 5. The NAIC however notes the proposed hierarchy portrays only values determined based on market available information as "true fair values". All others are substitutes for fair value. As stated in many of our previous responses, the NAIC believes that, in the absence of efficient active markets, valuations based on private empirical data relative to an asset or liability are superior to estimates of market value based only on market available information. The NAIC proposes that the current hierarchy be amended to better address measurements based on private empirical data.

Question 19. Do you have comments on any other issues or proposals, including the proposals for further research? If so, please provide them. *(Paragraph 189 of the condensed version and paragraph 441 of the main discussion paper.)*

Response: Please see our previous responses.

We appreciate the opportunity to comment on the joint exposure of *Measurement Bases for Financial Accounting – Measurement on Initial Recognition*. Should you have any questions, please contact me at (501) 371-2667, or John Tittle (NAIC Staff) at (816) 783-8120.

Sincerely,

Mel Anderson
Chair, NAIC International Accounting Standards Working Group

Background and NAIC Process

Formed in 1871, the NAIC is a voluntary organization of the chief insurance regulatory officials of the 50 states of the United States of America, the District of Columbia, American Samoa, Guam, Puerto Rico, Virgin Islands, and the Mariana Islands. The mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest in a responsive, efficient and cost-effective manner, consistent with the objectives of its members.

In fulfilling this mission, the NAIC has developed significant experience and expertise in the development of meaningful accounting principles for use in the financial statements of insurance enterprises. The NAIC has the responsibility to establish and interpret statutory accounting principles. The codification of statutory accounting principles by the NAIC produced a comprehensive guide for use by insurance departments, insurers, and auditors.

The fundamental concepts upon which these principles were promulgated are conservatism, consistency and recognition. While these principles are not identical to the framework used by the IASB, which govern general-purpose financial statements, the NAIC has developed expertise with general-purpose financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP). The NAIC reviews all U.S. GAAP pronouncements to determine their relevance for statutory accounting purposes.

These comments have been prepared by the NAIC International Accounting Standards Working Group. As part of the NAIC's due process procedures, these comments have also been shared with interested parties, all of whom were given an opportunity to contribute to the deliberations of these issues. However, the NAIC does not wish to imply that all interested parties share these comments.