

October 23, 2007

FAS 157 Disclosures – No Worries

The Summary

Last week, as the FASB decided not to defer the November 15, 2007 effective date of FAS 157, GAAP filers lost all hope for the ability to delay its adoption and preparation of related disclosures. The pronouncement requires companies to group their investments into the following categories:

- Level 1 – Rate is an unadjusted quote from an active market
- Level 2 – Rate was derived from “observable” inputs
- Level 3 – Rate derived from some “unobservable” inputs

FAS 157 also requires companies to disclose a 1/1/2007 – 12/31/2007 roll-forward of their Level 3 investments. For reference, Citigroup’s 10Q SEC filing for June 2007 includes a good example of these disclosures.

To aid our clients in preparing these FAS 157 disclosures, AAM will be providing a report to clients that groups our pricing between the three categories. Please contact your client service representative for more information.

The Details

AAM obtains our pricing primarily from Interactive Data Corporation (IDC). Security prices that are not available from IDC or securities where the IDC prices are not reflective of fair value are priced based upon broker quotes.

Based on guidance received from IDC, we believe that the IDC prices used by AAM can be considered either Level 1 or Level 2. In addition, based on a review of how other companies have implemented FAS 157 and our interpretation of these new disclosure requirements, we believe broker-provided pricing can be considered Level 2. In the rare event where there are securities that are priced internally at AAM, using **internal assumptions** (without the support of broker-provided information), we will classify these securities as Level 3 for FAS 157. As with any newly issued accounting guidance, we strongly urge you to discuss your application of the guidance with your auditors and would appreciate any feedback.

On the NAIC Horizon

The NAIC - Securities Valuation Office (SVO) has put forth a proposal that a new Schedule D column be added, which requires insurers to classify investments among the following categories:

- 1 - Rate is determined by SVO
- 2 - Rate is determined by an approved pricing service
- 3 - Rate is determined by a stock exchange.
- 4 - Rate is determined by a broker or custodian
- 5 - Rate is determined by the insurer

This proposal is currently being looked at by the NAIC Blanks Working Group and will likely be added to the agenda this December for comment. We do not anticipate that this proposal will be implemented for year 2007 statutory reporting.

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