Ameriprise Financial, Inc.
802 Ameriprise Financial Center
Minneapolis, MN 55474

Via Email: director@fasb.org

October 25, 2013

Ms. Susan M. Cosper
File Reference No. 2013-290
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference No 2013-290

Dear Ms. Cosper:

Ameriprise Financial, Inc., one of the nation's leading diversified financial services companies, appreciates the opportunity to offer comments with respect to the Proposed Accounting Standards Update, *Insurance Contracts, Topic 834* (the "Proposed Standard"). Ameriprise Financial, Inc. has approximately $193 billion of in-force life insurance, approximately $82 billion of variable and fixed deferred annuities and approximately $835 million of annual automobile and homeowner insurance premium.

Executive Summary

We support the Financial Accounting Standards Board's ("FASB") and the International Accounting Standards Board's ("IASB") (collectively, the "Boards") joint effort to improve accounting for insurance contracts through the development of a converged, high-quality accounting model that provides comparable, decision-useful information that faithfully represents the economics of insurance contracts.

We believe much greater emphasis and diligence must be placed on the achievement of a "high-quality" standard, rather than a "converged" standard as the first priority should be high-quality financial statements that actually improve existing U.S. GAAP for insurers. Regretfully, in our view, the Proposed Standard does not provide improvements for the users of financial statements as it lacks decision-useful information for investors. As proposed, there are few items that would result in improving consistency, comparability, or transparency on the financial statements. We also do not believe the Proposed Standard provides a fair representation of the economics of our business model, nor the way management evaluates and manages the business.

Another concern we have is with the complexity necessary to fully assess and model the impact of the Proposed Standard in conjunction with pending standard updates that have not yet been issued (i.e., revenue recognition and classification, measurement and impairment of financial instruments), and how all of these proposals will affect/interplay in the financial statements.

An additional concern with the Proposed Standard is the proposed accounting and reporting insurance models are insufficiently defined and untested. This will unnecessarily complicate the process of attempting to design, build, test, and implement the models. In addition, modeling retrospective restatements will be extremely complicated, costly and time consuming. Additional costs will be required to identify, document and implement appropriate internal controls, develop required external auditor documentation, and provide investment analyst training. Analysts will need this training to develop radically different business valuation models for each insurance company to allow them to measure financial performance and metrics.

We believe current U.S. GAAP is largely transparent and has relevant economic and return performance measurements. If the Board changes to a more complex, less comparable and less transparent methodology and presentation it could be detrimental to the capital markets view of the insurance business as investors tend to value the life insurance business based on book value and price/earnings multiples because of the relative long-term and stable earnings patterns. In assessing the quality of earnings, investors look to operating earnings or net income excluding gains/losses on investments. The Proposed Standard would nullify the current valuation metrics used by investors and management without replacing them with useful measurements.

The Proposed Standard would force management to discuss its insurance business performance using non-GAAP measurements in addition to implementing yet another accounting and reporting model, and then reconciling the proposed presentation, valuation assumptions, and the various components of margin. This would, in effect, create the development and maintenance of an additional accounting and reporting basis, not to mention the overwhelming increase to the amount of disclosures and reconciliations required, rather than making limited enhancements to existing U.S. GAAP to achieve meaningful improvement.

Absent the improvements and recommendations noted throughout this letter addressing the technical shortfalls of the Proposed Standard, we strongly believe the costs to implement and comply with the Proposed Standard far outweigh any benefit that may be achieved in the accounting for insurance contracts.

Without the Boards re-exposing a converged, internationally-supported accounting standard that addresses our recommendations below, we believe the appropriate path for insurance accounting in the United States is for the FASB to focus solely on limited targeted changes to existing U.S. GAAP. Should you pursue the limited targeted changes path, we are available to discuss our views on the areas that could benefit from targeted changes (e.g., unlocking FAS 60 assumptions). It is important that the Boards, in their efforts to develop an improved accounting standard, not create additional accounting bases for insurers by not developing a fully converged, internationally-accepted accounting model. Insurers already prepare financial information on U.S. GAAP, tax, and statutory bases. We do not need a fourth basis for internationally-active insurers.

While we appreciate the Board's efforts to resolve the issues identified by the insurance industry throughout the course of the Board's deliberations, we believe there is additional work necessary. There are various aspects of the Proposed Standard that result in accounting principles that do not faithfully portray the economics of insurance contracts. These aspects include:

- Applying a discount rate that does not leverage the rate used to price insurance contracts and the expected investing strategy of the insurance entity over the long life of an insurance contract;
- Presenting a revenue amount that does not reflect the contractual consideration paid by a policyholder;
- Disconnecting certain revenue-generating activities from an insurance contract when those activities are critical to the overall economics of the insurance contract (i.e., asset management fees);
- Proposing a model where policyholder experience and emerging profit patterns of an insurance contract are not accurately presented in the financial statements (i.e., a locked-in margin);
- Requiring the separate measurement and amortization of successful-effort acquisition costs rather than simplifying the model by releasing the margin when successful-effort acquisition costs are incurred; and
- Introducing a new accounting model for short-duration contracts when the existing accounting model is easily understood and reflective of the economic reality of those contracts.

If the FASB decides to move forward with the Proposed Standard, we suggest the Board conduct a comprehensive cost-benefit analysis prior to the issuance of a final standard. This will help the Boards better understand the impact of the Proposed Standard on all stakeholders. Due to uncertainty in how the FASB will ultimately resolve the concerns set forth in this letter and others' in addition to the significant overhaul of all our systems (approximately 20 to 25 in total), control processes, financial planning and analysis aspects, and required internal and external audit procedures, we are unable to provide a narrow range of estimated implementation costs. However, we do know that implementing the proposed changes in the aggregate will be a material cost for our shareholders.

We are also deeply concerned with the large amount of human capital and other resources that will be necessary to implement the Proposed Standard. There are competing regulatory and accounting changes that will require the expertise of a very limited pool of industry specialists, in particular, accounting and actuarial professionals with insurance industry experience. Specifically, if the Proposed Standard is effective in 2018 or 2019, competing interests will include a newly exposed international regulatory framework ("ComFrame") by the International Association of Insurance Supervisors (IAIS), emerging U.S. statutory standards including Principle-Based Reserving methodologies ("PBR") and Own Risk Solvency Assessment ("ORSA"), the potential for new mandates from the Federal Insurance Office, as well as new FASB standards on revenue recognition, leases, and financial instruments which will also significantly drain the limited resource pool.

The observations discussed below are intended to assist the FASB in addressing the perceived shortcomings of the Proposed Standard. Please keep in mind the commentary below is predicated on the assumption that the Boards can collectively agree on issuing one high-quality standard. Our comments should not be construed as support for the Proposed Standard should the FASB and IASB not agree to a converged standard.

Scope

We support the scope of the Insurance Contracts standard as proposed. We believe that accounting for insurance contracts, regardless of whether the insurer is an insurance company, should be consistent and comparable across entities.

Discount Rate – Asset Earned Rates

We do not support the FASB's proposed methodology for discounting an insurance contract liability. Generally, insurers price products assuming specific asset earned rates over the estimated lives of insurance contracts. Under the proposed accounting model, to the extent there is a difference between what an insurer assumes it can earn on a hypothetical asset portfolio and the risk free rate plus an illiquidity adjustment, an insurer's likelihood of originating an onerous contract increases significantly. Accounting for a contract as onerous solely because of an unobservable accounting estimate associated with the time value of money when in fact the insurance contract is expected to be profitable over the contract life is not appropriate and does not represent the economics, results of operations, or financial condition of an insurer.

As a result of the inappropriate recognition of discount rate impacts, we believe insurers will develop non-GAAP measures in order to effectively communicate the quality of their portfolios to analysts and other users of the financial statements. Any new accounting standard that would result in more non-GAAP measures in the investment community is not an improvement to existing accounting standards. We believe discounting a liability at a rate that inherently aligns with our pricing of the insurance contract is more representative of a liability-based discounting principle when compared to the top-down discount rate discussed in the Proposed Standard. That rate would be an asset earned rate that is updated as necessary to continue to reflect the underlying economics between the liability and the assets supporting the liability. We believe the FASB should not ignore the linkage between the investment strategy of the insurer and their fulfillment of an insurance liability.

If the FASB amends the Proposed Standard to require the asset earned rate, in an effort to provide transparency to users and assist them in understanding the quality of management's discount rate estimate, we suggest requiring a disclosure of the weighted average discount rate applied to the aggregate insurance liabilities. This enhancement in disclosure will allow users to qualitatively, and quantitatively, compare an insurer's discount rate among their peers when analyzed in conjunction with other disclosures surrounding types of insurance underwritten and various segment disclosures. However, the disclosure should not be at a level (i.e. at the product type, or portfolio level) such that it requires the disclosure of proprietary information. We recommend this disclosure be reported at the segment level for public companies.

Discount Rate – Mirroring

With respect to the 'mirroring' concept proposed by the FASB, we generally support matching the cash flows of segregated funds with those of the contractually-linked liabilities.

One area where the FASB should enhance its model is the manner in which the discount rates on asset-dependent cash flows are reset. The Proposed Standard requires the discount rate for margin accretion to be reset in a manner that recognizes changes in estimated interest crediting rates on a level-yield basis. Using a level-yield accretion basis does not accurately reflect the pattern of when and how insurers change crediting rates and does not accurately reflect interest accretion. We suggest the Board substitute the level-yield approach with a level-spread approach. The level-spread approach would accrete interest in a pattern consistent with the crediting of interest to the insured. A level-spread approach would take into account the gradual change in crediting rates determined by the insurer as interest earned on reinvested assets throughout the life of the portfolios changes. The result would be an interest accretion pattern that moves in parallel to the contractual credited interest rate.

Discount Rate – Other Comprehensive Income ("OCI")

While we agree with the FASB's proposal to segregate the effect of changes in the discount rate in OCI, we observe that the proposed principles will not eliminate accounting mismatches when considering the FASB's Financial Instruments proposed standards. We appreciate the FASB's efforts to remove impacts to the income statement resulting from interest rate volatility, however, the resulting change increases complexity (which is necessary) while creating accounting mismatches for certain investment strategies and insurance contracts. For example, insurers with investments in commercial mortgage loans, equities, equity method investments and real estate backing its insurance liabilities will experience a greater accounting mismatch than those insurers invested primarily in securities.

Earned Revenue Approach

We appreciate the careful consideration the FASB has given to the presentation of earned revenue in the income statement. We also appreciate the motivation the FASB has to work toward consistent accounting under both the proposed Revenue Recognition standard and the Insurance Contracts' current fulfillment approach. However, we cannot support the proposed earned revenue approach because it fundamentally lacks alignment with the cash fulfillment model proposed for insurance contracts.

We believe revenue presentation on the income statement should align with the cash flow movement in the liability similar to what was proposed in the FASB's Discussion Paper with the Summarized Margin. We believe this because reporting the cash inflows in revenue properly communicates to users of the financial statements both volume information and the actual consideration received under the terms of the insurance contract. We are not discounting the FASB's concern with matching "revenue" to periods in which the insurer is released from risk, but we believe the overriding need for this model is to provide information that is useful for the users of the financial statement. If the FASB continues with the model as proposed, financial statement users will disregard the revenue number in the income statement because it is difficult to understand and it will not provide a meaningful measurement that they will be able to relate to as income. In the end, we will have to supplement it with non-GAAP disclosures in order to explain our results in an understandable manner.

We understand FASB's intent is to apply an earned revenue approach, however, our support of recording revenue based on cash inflows is reasonable given the nature of long-duration insurance contracts because cash inflows are the most useful information and will not be misleading to users. Users understand that premiums received for insurance contracts will be used to cover future expected claims regardless of when the insurer is released from risk. This aligns with the cash fulfillment model that records the impact from estimates of both premium and claims immediately in the income statement even though they may not occur until future periods (i.e., the cash flows recorded in income should reflect both gross premiums and the corresponding gross change in the liability). In addition, if we are striving to be comparable with other industries so that analysts can more easily compare entities, then reporting cash inflows as revenue will need to align with how analysts perceive revenue to be an indicator of sales activity. Therefore, the most relevant information on the income statement is a breakdown of total cash flows into understandable pieces and the development of actual versus estimated cash flows.

We are also concerned with the complexity underlying the definition of 'estimated returnable amount' as well as its proposed application in calculating the proposed insurance contract revenue. As mentioned above, we do not believe revenue should be reduced for amounts to be returned to policyholders and we have doubts that it will provide relevant information for the users of the financial statements as it is a difficult calculation to understand. At most, we believe the amount should be disclosed in the financial statements, but we urge the Board to reconsider the current definition and perform more outreach as to what users will find useful as a disclosure.

Acquisition Costs

We believe that one of the more challenging aspects of the proposed model is how to account for acquisition costs related to issuing insurance contracts. Under existing guidance, deferred acquisition costs add greatly to the complexity of understanding the results from insurance business and under the proposed model we do not see that it will prove any easier for users of the financial statements to understand acquisition costs when they are included in the margin.

There is growing interest in the industry to offset acquisition costs against the margin. This approach would immediately expense acquisition costs when incurred with an offsetting release of profit from the margin. This would significantly reduce the complexity of the model (removes the need to track expected acquisition costs and acquisition costs not yet recognized as an expense) and increase understandability of the expected profitability of the insurance contract (i.e., reduces the complexity of understanding the changes in the margin). We support this alternative approach because it is simple and retains the integrity of the model.

As an alternative, another way to simplify accounting for acquisition costs is to treat these costs similar to other cash outflows of an insurance contract by including in the cash outflows rather than the margin. This approach is consistent with the rest of the model and with supporting rollforward disclosures it will provide greater transparency to the users of the financial statements. This is not our first choice, but it is an improvement over the proposed accounting for acquisition costs.

Unbundling Asset Management Cash Flows and Cash Inflows from Associated Contracts

We do not support the Board's decision to exclude cash flows generated from certain distinct performance obligations. Specifically, the Proposed Standard has stated that if an entity regularly sells the service separately and the policyholder could benefit separately from the service, then the service is a distinct performance obligation. We believe that when the service is vital to the economic performance of the insurance contract and a significant driver of the associated insurance benefits, it should not be excluded. For example, in the case of variable annuities, an insured is charged asset management fees. The economics of the variable annuity contract and the profitability expected over its life are dependent on those asset management fees (i.e., variable annuity contracts could not exist without the underlying asset management services). We ask the Board to specifically exclude from the definition of distinct performance obligations, services that are vital to the economic performance of the insurance contract even if the company sells similar asset management services separately.

We also bring to your attention that if the Board proceeds with the Proposed Standard as drafted, it may result in different financial presentation for insurers depending on the legal structure of the insurer and its affiliates. There are insurers that are part of a larger financial institution with separate asset management services, and there are insurers who provide in-house management services. For example, asset management fees for a variable annuity may be deducted from the variable annuity account and paid to an affiliated asset manager instead of directly to the insurer. In turn, the affiliated asset manager remits all or a portion of the fees to the insurer in the form of revenue sharing arrangements. Depending on an entity's organizational structure, the resulting margin and contract profitability may be different as cash flows between the insurer and the policyholder may legally be different (paid directly to the insurer from the policy as opposed to via a revenue sharing agreement to the insurer), but economically the same. This is not appropriate and significantly reduces comparability among peer insurers, defeating the purpose of the Proposed Standard. Cash flows generated from the insurance contract, whether paid to the insurer by the policyholder or by an affiliated company, should be included in the measurement of the overall contract margin.

Definition of Portfolio

We are concerned that the proposed definition of a portfolio is more restrictive than necessary and will result in unintended consequences. While we support the FASB's position that insurance contracts should not be grouped in a manner that delays the recognition of losses, we believe that the inverse is also true, that losses should not be recognized erroneously because the proposed definition does not appropriately reflect the underlying economics of insurance contracts. As the FASB initially discussed, insurance contracts should be grouped to reflect how they are managed together as a single pool as this is a fundamental concept that risk is shared amongst a group of policyholders.

We believe the drivers that result in unwarranted disaggregation are the requirements to group insurance contracts by duration and expected patterns of release from risk. In addition, we have concern that “priced similarly relative to the risk assumed” will result in contracts that do not have similar profit margins being disaggregated into separate portfolios, however the contracts may still be priced appropriately for similar risk that is undertaken by the insurer which is appropriate to group in one portfolio. For example, these additional requirements may require that certain insurance contracts be grouped as often as quarterly and allocated by multiple groups by age for life insurance. We believe it will be a significant operational burden to comply with this requirement. We believe the following definition of portfolio will meet the objectives of the FASB and preserve the integrity of a portfolio as it relates to sharing of risk by policyholders:

A group of insurance contracts that:

(a) provide coverage for similar insurance risks (e.g., mortality, morbidity, etc.), and
(b) are managed together as a single pool

We also ask that you provide additional discussion on the definition of “similar risks” as it is not clearly defined and may be open to interpretation and applied inconsistently. In addition, we are concerned that contracts may have substantially similar risks, but due to the ability of policyholders to choose different features, there may be some risks that vary from contract to contract and that should not preclude them from being included in the same portfolio.

We see this as an area where convergence may be easily attained and the aims of both Boards are achieved. We also believe the FASB could protect against inappropriate grouping of insurance contracts by providing a principle-based statement on the intent of a portfolio is to be narrow enough to capture how the business is managed, but not so broad as to impede a financial statements users understanding of the underlying economics of the business.

Accretion of Interest on the Margin

We believe that the decision of whether or not to accrete interest on the margin should be dependent on whether or not the margin is unlocked (we support unlocking the margin, which we discuss in the next section). If the margin is not unlocked, interest accretion is less meaningful because after issuance the margin no longer reflects future cash flows and it is not clear what interest accretion would really represent and we believe that in this case is should not be required.

If the margin is unlocked then it can be argued that the margin reflects future cash flows and therefore interest accretion is appropriate. However, when combined with unlocking, the accretion of interest on the margin adds a level of complexity to the calculation that may not be worth the benefit of having a more technically correct answer. We urge the Board to carefully weigh the benefits of accreting interest on the margin, it might be possible to significantly reduce the complexity of the model without giving up much in benefits. In addition, reduced complexity may make changes in the margin easier to understand for users of the financial statements.

Policyholder Experience, Assumption Changes and Unlocking the Margin

The unearned profitability of an insurance contract reflected in the margin is expected to change over time. Initial actuarial estimates of cash flows will always differ from actual cash flows and projections of future cash flows will inevitably change over the life of an insurance contract. We believe that presenting the margin (e.g. unearned profit) on the balance sheet appropriately communicates to the users of the financial statements the changes in future expected profits over time as well as the underlying economics of the insurance contracts.

The FASB's proposed rollforward disclosures of balance sheet accounts will allow users to quantitatively and qualitatively assess the historical accuracy of the actuarial estimates as well as isolate the current period changes in policyholder experience. Therefore, we believe that unlocking the margin each period for changes in assumptions is appropriate and more accurately reflects management's estimate of unearned profits and that such changes are adequately disclosed in the footnotes to the financial statements.

We also believe that unlocking the margin for changes in assumptions would eliminate the need for an onerous contracts test. Unlocking the margin would simplify the overall model, reduce implementation and future operational costs and reduce the risk of earnings management because small changes in assumptions could result in the immediate release of any remaining margin into earnings (and revenue under the Proposed Standard).

Contract Modifications

Application of existing guidance on contract modifications is challenging, and we believe it is open to interpretation which creates diversity in practice. We believe that a principle-based approach should replace the current guidance that is proposed to be carried forward into the new insurance contracts accounting guidance. This would provide a noticeable improvement, and it is one area where it would be easy to converge with the IASB. We agree with the IASB in that if either of the following conditions are met, then the modified contract should be treated as a new contract:

- The contract no longer meets the definition of an insurance contract, or
- The contract no longer meets the criteria to stay in the same portfolio of insurance contracts

We believe the proposed measurement of a gain or loss at the time of a substantial modification unnecessarily complicates the model without providing any benefit to the users of the financial statement. The beauty of a cash flow model is that changes in the expected cash flows from a contract modification will naturally flow through the model. If there are concerns that the net changes in cash flows should not flow directly to income, then again, we urge the FASB to reconsider unlocking the margin. We strongly oppose any proposal that includes the calculation of a hypothetical price that generates a gain or loss because it does not reflect the underlying economics related to a contract modification (i.e., a hypothetical price is not a reflection of the actual terms of the contract modification).

Premium Allocation Approach

We do not support the FASB's proposed change to short-duration insurance contracts, particularly property and casualty contracts. We believe the existing accounting model is well understood by preparers and users. Accompanying any modification to the existing accounting model is an increase in costs and human capital necessary to implement and maintain compliance. These unnecessary costs do not generate incremental benefits. While we acknowledge that time value of money and reserving for high severity, low frequency losses (that is, catastrophe losses) are concepts not present in today's accounting model, we do not believe users of the financial statements are missing important information. We believe that attempting to assign a probability to the timing of claim payments in general (for example, impact of litigation on claim patterns) as well as attempting to assess the probability and amount of loss of an unpredictable weather or geographical event is misleading and significantly increases the potential of inappropriate and potentially unauditable claim reserves. One thing that can be certain is that any estimate of losses from unknown catastrophic events will be wrong until the event occurs and that actual losses will always be different than the initial estimate.

Presentation and Disclosures

We do not support the presentation requirements set forth in the Proposed Standard. Overall, we believe that the Proposed Standard would result in cumbersome and overly descriptive financial statements to the point of becoming overwhelming to an investor by requiring separate presentation of portfolios measured using the building block approach or the premium allocation approach, portfolios in an asset position versus portfolios in a liability position and the related reinsurance impacts.

Specific to the portfolios in an asset position versus a liability position, while we concur that a right of offset does not exist between portfolios, a right of offset does not exist for individual contracts within the portfolios either. The attempted 'gross-up' of the balance sheet required by the Proposed Standard is unnecessary and does not provide decision-useful information to users of financial statements. In fact, we believe that the potential period-to-period movements in the portfolios between asset and liability positions will confuse users. We would support a net presentation of all portfolios on the financial statements possibly supported with gross footnote disclosures.

We also believe the presentation of insurance contracts accounted for using the building blocks approach separate from those using the premium allocation approach results in cumbersome and visually-challenging financial statements. We believe this information would be appropriately communicated to users through aggregated balance sheet and income statement presentation supplemented with appropriate footnote disclosures with separate BBA and PAA information.

In addition, we do not support the gross presentation of separate account income and expenses. Consistent with the Basis for Conclusions of AICPA Statement of Position 03-1, offsetting within the income statement separate account investment performance and the corresponding amounts credited to contractholders provides the most meaningful presentation to the users of the financial statements and allows users to more readily and easily analyze investment returns of the insurer. Offsetting the amount ultimately excludes from the income statement amounts that are legally not available to investors in the insurer.

Generally, we agree with the majority of the Proposed Standard's disclosure requirements. We do not perceive operational challenges in developing the disclosures because most of the information should be directly available from inputs/outputs of the building block and premium allocation models. However, we disagree with the following three specific disclosure requirements.

- We do not support the FASB's requirement to present disaggregated data in the footnotes. We believe that disclosing inputs, judgments and assumptions by coverage type, geography and in some cases portfolio could result in the disclosure of proprietary and strategically important data that could jeopardize the competitive landscape;
- We do not agree with disclosing the fulfillment cash flows in 'timebands' and we question the usefulness of disclosing, for example, cash flows expected in 10-year banding increments. We do not believe the users of our financials could utilize this information in any meaningful way given policyholder behavior and experience can significantly change over time rendering the banding of future cash payment less relevant; and
- Forward-looking expectations and projections necessary to illustrate insurance contract sensitivity should not be included in audited notes to the financial statements. Financial statements should communicate historical results and point-in-time views of an entity. Projections and forward-looking scenarios are better suited in communications outside financial statements. Consistent with our feedback on the FASB's Disclosures of Liquidity and Interest Rate Risks, we recommend that the FASB work with the SEC to ensure that appropriate disclosures are included in the Management Discussion and Analysis section of SEC filings.

Transition

To the extent the FASB moves forward with the Proposed Standard, we support the modified retrospective transition requirement. Given the long term nature of most life insurance contracts, the margin at transition is very important to users in understanding the unearned profit of our in-force business. An accounting model that does not recognize the future profits embedded in existing in-force business would be unacceptable.

However, one opportunity for the FASB to simplify transition and reduce the necessary implementation time would be to allow preparers to utilize hindsight when developing their assumptions for their in-force business. We believe there is significant cost to preparers and time necessary to research and obtain sufficient, auditable documentation for insurance contracts that were issued decades ago. As a practical expedient, we ask the FASB to allow preparers to adjust portfolio cash flows at transition to reflect trends and experience known at that time. To the extent the FASB decides to unlock the margin as we argue for earlier in this letter, the concept of using hindsight in transition would not be necessary.

Timing and Effective Date

With the inclusion of the transition practical expedient noted above, we estimate approximately four to five years would be required to implement the Proposed Standard. This includes the time necessary to completely redesign our approximately 20-25 administrative, actuarial, reinsurance and general ledger systems as well as adequately design, implement and test financial reporting controls, including financial analysis processes and redesigning statistical supplements used to communicate our entity's performance both internally and externally. Additional resources may be necessary to redesign our hedging strategy to adequately hedge a new pattern of GAAP earnings and make modifications to our hedging systems necessary to execute our redesigned strategies. Significant time is also needed to properly educate all stakeholders including our Board of Directors, investors and analysts. This is not a simple task and should not be underestimated.

Despite the FASB's significant deliberations, outreach with the industry and stakeholders and the FASB's oversight of field testing, we expect there to be numerous unintended and unforeseen consequences as companies begin the implementation process. Therefore, we believe the FASB should expand its field testing and periodically and publically report the nature of specific products tested and the associated results. It is important for the analyst communities as well as preparers and practitioners to fully comprehend the application of such a complex standard across our industry. Allowing for significant time between the issuance of the final standard and its effective date will provide an avenue for preparers to effectively raise implementation issues and unintended results to the FASB and the FASB to expand its implementation guidance where appropriate in an effort to promote comparability and consistency in the application of accounting principles.

Conclusion

Assuming the FASB and IASB do not converge as we witnessed during many of their deliberations and further evidenced in the release of two different proposals, we believe the costs to comply with the FASB's Proposed Standard will far exceed any benefits financial statement users will gain if full convergence is not achieved. We are very concerned that there will be limited resources available to implement this Proposed Standard which will require the expertise of a very limited pool of auditors, accountants, systems analysts, and in particular actuaries that are industry specialists. This lack of an appropriate amount of resources will be another factor driving up the implementation costs of the Proposed Standard not only during modeling and system setup, but also as we run parallel insurance models for two to three years. In summary, the cost to implement and maintain this more complex model will have a material cost to our shareholders without the benefit of substantially improved information for the users of our financial statements or of being fully aligned with IFRS.

We especially urge the FASB to consider the following changes because they will aid greatly in users understanding of the model and increase the efficiency of the model saving resources and reducing the use of non-GAAP measures.

- Liabilities should be discounted at an asset earned rate because it is more representative of the economics of the insurance contract as compared to the top-down discount rate discussed in the Proposed Standard. This would more clearly reflect the expected profitability of the contract to users, remove the need for level-yield calculations on contracts that are asset dependent and eliminate the use of OCI for the liability.

- Acquisition costs should be expensed when incurred with an offsetting release of profit from the margin. This removes the need for users to understand the impact of acquisition costs on the margin which is not intuitive because they need to comprehend the expected acquisition costs and those costs not yet recognized as an expense. This change significantly reduces the complexity of the model and the resources needed to track acquisition costs.
- Unlocking the margin each period for changes in assumptions reflects management's estimate of unearned profits and provides the most useful information to users. In addition, it would eliminate the need for an onerous contracts test which greatly reduces modeling costs and reduces the risk of earnings management.
- Liabilities should include all cash inflows that are related to the underlying economics of the insurance contract. A user is not benefited when insurance contracts are reflected as onerous when the insurance contract is clearly profitable which potentially will happen with our variable products.
- If the margin is not unlocked, the use of hindsight should be allowed for transition. This will provide useful information for users and it will greatly reduce the resources needed and the complexity of implementing this Proposed Standard.

In addition, if these changes are incorporated it will help prevent the unintended consequence of having economically feasible insurance products that add value for the policyholder from being discontinued due to the Proposed Standard not accurately reflecting the true underlying economics of insurance products.

We implore the two Boards to converge on one internationally-converged accounting standard that addresses the insurance industry's and analysts' concerns on the Proposed Standard. The FASB, as well as the IASB, should leverage, to a great extent, the feedback they receive during this comment letter process from the insurance industry and outreach with general and specialized investment analysts. Without converging in a manner that addresses the concerns of the interested parties, the FASB risks replacing a complex accounting model with a much more complex accounting model that is not understood by preparers and users.

Thank you for your consideration of our comments on these important matters. If you have any questions, comments or would like further information, please contact me at (612) 678-4769.

Sincerely,

David K. Stewart
Senior Vice President & Controller