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Ms. Susan Cospers, Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Re: Exposure Draft – *Investments- Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting*, File Reference No. 2015-280

Dear Ms. Cospers:

The American Council of Life Insurers (ACLI)¹ appreciates the opportunity to comment on the FASB's Exposure Draft, *Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting* (the "Exposure Draft"). The update is part of the FASB's ongoing simplification initiative launched in June 2014 to reduce cost and complexity of complying with U.S. Generally Accepted Accounting Standards (GAAP) while maintaining or improving the usefulness of information provided to users of financial statements. We continue to appreciate the FASB's efforts to focus on simplification.

Overall Comments

The ACLI supports the guidance in the Exposure Draft that removes the current requirement to account for an equity method investee as if it were a consolidated subsidiary by eliminating the requirement to initially and prospectively account for basis differences. For significant new investments in operating joint ventures, the requirement to fair value the assets and liabilities of the investee, just as an acquirer would in a business combination, is effectively eliminated, which greatly simplifies the accounting and reporting. We also support the elimination of the retroactive reporting requirements applicable to previously purchased investments that qualify for the equity method after the original purchase date.

However, as more fully described in the remainder of this letter, the ACLI has some concerns with respect to practically applying this guidance in all circumstances, particularly with respect to an acquired interest in an insurance entity that qualifies for the equity method when the investee had not historically prepared or reported financial information in accordance with GAAP. We also believe the Board should

¹ The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Learn more at www.acli.com.

consider permitting or requiring amortization of the entire basis difference through equity method earnings for equity method investments in investment companies that do not have indefinite lives.

Practicability concerns for equity method operating investees

New Investments

While the guidance in the Exposure Draft simplifies the accounting for acquired equity method investments, it does not change the requirement for the investor to “convert” the financials statements of the investee to GAAP initially and on an ongoing basis, if they previously reported on a basis other than GAAP, for example, International Financial Reporting Standards (IFRS). Under the current guidance, this poses less operational concern, because the investor is already performing purchase accounting on the acquired balance sheet so the “basis” difference adjustments for applicable assets and liabilities can also include “conversions” to GAAP, where appropriate. Under the guidance in the Exposure Draft, investors will no longer be required to capture basis differences, but will still be required to maintain adjustments to “convert” IFRS accounting, for example, to GAAP accounting initially and on an ongoing basis.

For acquired insurance company equity method investments that did not previously prepare GAAP financial information, absent a purchase accounting exercise, the “conversion” of certain long duration insurance liabilities and deferred acquisition costs to GAAP would pose significant operational issues. GAAP currently requires insurance liabilities for traditional long duration contracts to be valued using assumptions for mortality, interest, lapses, expenses, etc. that are locked-in at the time the insurance contracts are issued, generally separated into annual cohorts. If the investee had not previously accounted for these contracts with locked-in assumptions, the equity method investor would be required, under the Exposure Draft, to “recreate” the assumptions that the investee “would have used” at the date of original issuance of all inforce policies (potentially having to go back years or even decades), in order to initially and subsequently measure these insurance liabilities in accordance with GAAP. Conversion to GAAP in this situation would most likely be deemed impracticable, as that term is defined and used in ASC 250, *Accounting Changes and Error Corrections* (ASC 250).

Before finalizing the guidance the Exposure Draft, we recommend that the Board consider providing practical expedients in the final ASU that address situations where applying the guidance in the standard is deemed “impracticable” as defined in ASC 250. One suggestion may be to allow investors in this circumstance the option to report their proportionate share of comprehensive income of the investee by retaining the basis of accounting being used by the investee, with qualitative disclosure of the key differences from GAAP, if the equity method earnings are deemed material to the investor’s GAAP financial statements. Another alternative may be to allow current GAAP measurement principles to be applied as a practical expedient, with appropriate disclosure if deemed material to the investor’s GAAP financial statements.

Transition for Existing Investments

The same impracticability concerns outlined above apply to the transition provisions outlined in the Exposure Draft in certain circumstances, potentially requiring an additional practical expedient or clarifying guidance in the final standard. The proposed transition guidance in the Exposure Draft requires the equity method investor to immediately cease amortizing basis differences for existing equity method investees as of the effective date. This is very straightforward when considering basis adjustments previously made to individual assets and liabilities of the investee, such as property, plant and equipment, investments and identifiable intangible assets. However, there may be situations where “turning off” the amortization of basis differences may be impracticable. As noted in the previous example, under current guidance when an equity method investment in an insurance company is

purchased, the locked-in assumptions inherent in the inforce block of traditional insurance contracts are reset to “current” assumptions. In addition, the liability is measured at fair value and the difference between fair value and the carrying amount of the liability is established as an amortizing intangible asset. While there would appear to be no practicability concerns with ceasing amortization of the intangible asset, it would be deemed impracticable to “undo” the resetting of all reserve assumptions on the liability if the investee had not previously issued GAAP financial statements, for the same reasons cited earlier.

We recommend that the Board consider adding a practical expedient in cases where applying the modified prospective approach is not deemed practicable. One possible practical expedient may be to “grandfather” the accounting for previously held investments where applying the transition provisions is deemed impracticable.

Amortization

While we agree that amortization is not appropriate in most circumstances, investments in the form of limited partnerships, limited liability companies or similar structures, often meet the characteristics of an investment company as defined in ASC 946, and are required to be accounted for under the equity method pursuant to ASC 323, unless the investor’s interest “is so minor that the limited partner may have virtually no influence over partnership operating and financial policies.” When these investments are purchased in the secondary market, they can be purchased at a premium or discount to the underlying GAAP net assets of the investee depending on market conditions at the time. These types of investments are generally held for investment income and do not have an indefinite life, and as such, at some point during the life of the investment, the realizable value will converge to the underlying GAAP net assets. The ACLI recommends that the Board consider permitting or requiring amortization of the entire basis difference (positive or negative) in these situations to reflect this convergence. This would have the effect of adjusting the return on the investment over time, similar to a premium or discount on a performing loan or fixed income security purchased in the secondary market. We believe this accounting would yield a more faithful representation of the underlying economics for these types of investments.

We appreciate the opportunity to share our general observations and concerns on this exposure draft. Following your consideration of our comments, we welcome your feedback and any questions you may have.

Sincerely,



Mike Monahan
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