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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

MetLife, Inc. ("MetLife" or "we") appreciates the opportunity to provide comments on the FASB's Exposure Draft, *Investments- Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting* (the "Exposure Draft"). MetLife is a leading global provider of insurance, annuities and employee benefit programs. Through its subsidiaries and affiliates, MetLife holds leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East.

MetLife commends the Board on its efforts to simplify the accounting for equity method investments. We generally agree that current accounting requirements for new equity method investments add cost and complexity to financial statement reporting without always enhancing the usefulness of financial information provided to investors. However, we believe there may be significant operational challenges with applying the proposed guidance in the Exposure Draft to acquired interests in an operating entity when that investee had not historically prepared or reported financial information in accordance with accounting principles generally accepted in the United States (US GAAP). As described more fully in the following paragraphs, this concern applies to newly acquired equity method interests after the effective date as well as previously held equity method interests in transition.

It is important to note that the proposed guidance in the Exposure Draft does not change the requirement for the investor to adjust the financials statements of the newly acquired equity method investee to US GAAP initially and on an ongoing basis if the investee had previously reported on a basis other than US GAAP. Under the current guidance, because the investor is required to perform purchase accounting on the acquired balance sheet, the basis difference adjustments for applicable assets and liabilities are often incorporated into the adjustments to US GAAP. In some cases it may be impracticable, as that term is defined and used in ASC 250, *Accounting Changes and Error Corrections* (ASC 250), for investors to only adjust the investee's financial information to US GAAP, without performing purchase accounting.

For example, if an investor purchases an equity method interest in an insurance entity that had not previously reported under US GAAP, absent a purchase accounting exercise, the "conversion" of certain long duration insurance liabilities and deferred acquisition costs to US GAAP could pose significant operational challenges:

Long duration insurance liabilities – ASC 944, *Financial Services-Insurance* (ASC 944), currently requires insurance liabilities for traditional long duration contracts to be valued using assumptions for interest, mortality, expenses, etc. that are locked-in for the particular year in which the insurance contracts are issued. If the investee had not previously accounted for these contracts with locked-in assumptions from the year of issuance, the equity method investor would be required, under the Exposure Draft, to determine those "original" assumptions for all inforce policies in order to initially and subsequently measure those insurance liabilities in accordance with US GAAP.

Deferred acquisition costs for long duration contracts- ASC 944 requires that costs relating directly to the successful acquisition of new and renewal insurance contracts be capitalized and amortized over the life the related policies. Under current guidance, the asset representing the unamortized amount of deferred acquisition costs (if present) is removed from the initial balance sheet, so there are no current operational concerns. Under the proposed guidance in the Exposure Draft, if the acquired insurance company investee had not previously deferred and/or amortized such costs in accordance with US GAAP, it would be extremely difficult for the investor to retroactively determine what this asset balance should be at the acquisition date, given it could conceivably represent years, or even decades, of deferrals and amortization.

MetLife recommends that the Board include a practical expedient in the final ASU that address situations where applying the proposed guidance to new investments is deemed impracticable. One alternative may be to allow current US GAAP measurement principles (i.e. purchase accounting) to be applied to the equity method investee for purposes of the investor's equity method earnings. Another alternative may be to allow investors in this situation to retain the basis of accounting being used by the investee. In both cases, appropriate disclosure could be required, if deemed material to the investor's US GAAP financial statements.

The concerns cited above for newly acquired interest also apply to the transition provisions outlined in the Exposure Draft, which require the equity method investor to stop amortizing basis differences as of the effective date. Typically there would not appear to be operational issues 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 ceasing the amortization of certain basis differences may be deemed impracticable.

As noted in the insurance example above, 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. If the insurance entity investee had not previously issued US GAAP financial statements, it may be deemed impracticable at transition to (1) establish an asset representing the balance of unamortized deferred acquisition costs and (2) reset the reserve assumptions on the liability for traditional long duration contracts to reflect "original" lock-in assumptions.

We recommend that the Board consider whether the transition requirements need to allow for a practical expedient in cases where applying the modified retrospective approach is not deemed practicable. One possible practical expedient may be to have the new guidance only apply to newly acquired equity method investments after the effective date, "grandfathering" the accounting for all previously held investments.

We appreciate the opportunity to comment on the Exposure Draft and offer our perspective. If you have any questions on the contents of this letter, please do not hesitate to contact me.

Sincerely,

Peter M. Carlson
Executive Vice President and
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cc: John C.R. Hele