December 7, 2015

Technical Director
File Reference No. 2015-310
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Technical Director:

The Statutory Accounting Principles (E) Working Group (SAPWG) of the NAIC[1] is responsible for the development and enhancement of Statements of Statutory Accounting Principles (SSAPs) used by U.S. insurers in their statutory filings. Statutory Accounting Principles (SAP) presents an effective, comprehensive and understood approach, which has been built using the framework established by U.S. GAAP. Under the SAP process, all new GAAP issuances are considered and ultimately adopted, adopted with modification, or rejected. Although SAP may make some modification, it is preferred to have minimal differences in accounting methodologies between SAP and GAAP, with as limited variations as possible to meet regulatory objectives. Consequently, proposals that significantly revise GAAP standards are a vital matter for U.S. insurance regulators.

We appreciate the opportunity to comment on the current exposures pertaining to materiality and disclosures:

1) Proposed Accounting Standards Update: Notes to Financial Statements (Topic 235) - Assessing Whether Disclosures Are Material; and
2) Proposed Amendments to Statement of Financial Accounting Concepts: Conceptual Framework for Financial Reporting - Chapter 3: Qualitative Characteristics of Useful Financial Information.

In reviewing the proposed ASU and concept statement, we would like to provide a few high-level comments for consideration, focusing on the potential overall impact to financial statement users/investors, comparability assessments across similar companies, convergence with IFRS and general application of the proposed guidance. The NAIC's primary goal is to protect policyholders, including regulation of insurer financial solvency, with direct interest in minimizing differences between GAAP and SAP and supporting convergence with the IFRS. Although we are focused on the insurance industry, we believe the statements in this letter would be consistent with the views of other users that oversee different industries. We hope you find our input within this letter valuable.

[1] The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

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Overall Impact on Financial Statement Users

There is widespread agreement that financial reporting under current U.S. GAAP represents the superior standard, allowing all users the ability to obtain a comprehensive understanding of each reporting entity. Although provisions are currently in place to allow materiality considerations, current requirements for baseline disclosures ensures that users will have all the information necessary to review company activities. This ability is particularly important when some activities of an entity may be outside of the "traditional" expectations for an entity within a specific industry. Although these activities may be considered "immaterial" by the reporting entity, by identifying the involvement in the "non-traditional" activity, and possible fluctuations in activities over time, users have the opportunity to assess the full scope of the entity's activities and make appropriate determinations.

For example, in the insurance industry, activities that are considered non-traditional / non-insurance (NTNI) are key factors in the IAIS assessment of systemically important insurers. Although such activities would still be disclosed by those insurers with significant involvement, the proposed materiality and ASU changes would seemingly eliminate disclosures for NTNI activities if they do not rise to the level of "material" based on the assessment of the reporting entity. While a reporting entity may deem specific transactions as immaterial, any involvement in certain activities could be of utmost interest to the regulators and investors as they complete assessments and evaluations of the reporting entity.

Conversely, we also note that many of the insurance entities monitored by regulators are members of a conglomeration where insurance activity, in general, may not be material to the conglomeration. Since insurance companies are in a regulated industry, we believe disclosure of that activity should not be factored against the materiality of the conglomeration.

Although we support financial statements that provide clear communication that is important to users, we are uncertain if the proposed revisions will improve the overall usefulness of the financial statements. As noted, information on non-traditional or inherently risky activities, even if considered immaterial, could have a significant impact on the assessment of an entity.

Convergence with International Financial Reporting Standards

As identified in the exposure, amendments to make materiality a legal concept under U.S. GAAP would depart from prior IFRS convergence, as the definition of materiality would no longer be identical to the definition in the International Accounting Standard Board's Conceptual Framework for Financial Reporting. As stated in our Oct. 25, 2013 comment letter to the FASB in response to the insurance contracts project exposure, the NAIC supported the FASB's stated convergence efforts. We believe efforts should continue to minimize differences with IFRS, while ensuring high-quality standards, consistent with the FASB's stated priorities. (FASB Stated International Priorities: http://www.fasb.org/international.)

Although the Basis of Conclusions seems to imply that the disclosure change would move closer to language proposed within International Accounting Standards No. 1 (IAS 1), with a different definition of "materiality" between the FASB and IFRS, we believe this is an erroneous conclusion. Although the concept to exclude disclosures that are immaterial may be proposed by both standards, with different definitions of what would be material, the actual application of the guidance will be distinctly inconsistent.

As detailed in ASU 2011-11, *Balance Sheet (Topic 210):Disclosures about Offsetting Assets and Liabilities,* FASB disclosure revisions were expeditiously incorporated to allow for effective comparisons between U.S. GAAP and IFRS to address the impact of different offsetting requirements. (Under U.S. GAAP, derivatives, repurchase agreements and securities lending transactions are more likely to be shown net, whereas under IFRS, these transactions are more likely to be shown gross.) With the proposed changes to the materiality definition, and the required disclosures, it seems possible that a reporting entity could determine that their derivative, repurchase and/or securities lending activity – shown net on the financial statements – are immaterial because omission may not alter the "total mix of information." With this conclusion, the disclosures under ASU 2011-11 may no longer be required, thus negating prior improvements to aid in IFRS comparisons.

Applying Materiality Individually and In the Aggregate

As stated in the exposure draft, "Materiality is applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements taken as a whole." However, we are uncertain on how this language will be interpreted and to the extent aggregated immaterial disclosures would become required if they collectively reflect "material" information. Using our previous examples of NTNI transactions, derivatives, repurchase agreements and securities lending activities, if a reporting entity engaged in limited, immaterial, involvement across all of these functions, which together could impact the "total mix of the information," would the reporting entity be required to disclose all of these activities that make up the aggregate assessment? Or, would a reporting entity be permitted to disclose certain immaterial aspects (such as their activity with repurchase agreements), and not others (such as their NTNI, derivative and securities lending activities) and make an updated assessment that the "immaterial" nondisclosed activities, no longer has an aggregate "material" impact?

We do not believe that the limited guidance in the exposure draft provides enough instruction to prevent the "preferential" selection of "immaterial" disclosures. It is also uncertain that related "immaterial" activity would need to be disclosed in conjunction with "material" transactions. For example, if an entity acquired a significant amount of property, which was disclosed, and the entity entered into a sale-leaseback agreement for a subset of the property, which was deemed to be immaterial, it seems that disclosures for the sale-leaseback would not be required as long as they were not significant to alter the total mix of information, but yet, the overall reported activity could be misrepresented in the financial statements.

We are also uncertain on how the proposed revisions would be applied when activities and assessments vary over different reporting periods. If removing / re-including disclosures occur based on current materiality assessments, it would be very difficult for users to compare financial statements and track trends over time. For companies, we also believe it could be time consuming and costly in determining whether materiality assessments should eliminate disclosures, as these decisions could potentially be challenged by auditors, audit committees and board of directors. We anticipate that to avoid costs, reporting entities might be reluctant to remove prior disclosures, but also reluctant to add disclosures for new activities, resulting in a mismatch (or selective reporting) of "immaterial" disclosures in the financial statements.

Comparability of Financial Statements

In direct response to Question 4 of the exposure draft, the proposed amendments would result with a diminished ability for regulators and auditors to compare financial statements and assess company activities. This will be a direct consequence from the elimination of baseline disclosures. The lack of disclosures will create an inability for users to distinguish between companies that are not involved with a particular activity and companies that participate, but consider their actions to be "immaterial". It will also eliminate the ability to identify key differences in similarly-reported activities. For example, if two entities both report immaterial derivative assets on their balance sheet, it will no longer be possible to distinguish between the company that only engages in effective hedges, and the company that participates in speculative trading.

In summary, even if the overall impact is currently considered immaterial by a reporting entity, we believe investors should have disclosure information to effectively compare and assess reporting entities. We encourage reconsideration of the proposed changes within the proposed Concept Framework and the exposed ASU as we are uncertain whether the proposed revisions will improve the overall usefulness of the financial statements. Furthermore, cost savings might not be forthcoming due to the historical inclusion of disclosures, the re-evaluation of materiality and the legal review processes that the proposed revisions will necessitate.

Thank you for considering our comments. Should you have any questions, please contact me at 614-728-1071, or the following NAIC staff: Julie Gann 816-783-8966, Josh Arpin 816-783-8481 or Robin Marcotte 816-783-8124.

Sincerely,

Dale Bruggeman, Chair, NAIC Statutory Accounting Principles (E) Working Group
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