



AMERICAN ACADEMY of ACTUARIES

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Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116  
Via email to [director@fasb.org](mailto:director@fasb.org) and [acasas@fasb.org](mailto:acasas@fasb.org)

RE: Unlocking Assumptions and Discount Rates Only in the Fourth Quarter for Long-Duration Insurance Contracts

Dear Technical Director Cospers,

On behalf of the American Academy of Actuaries' <sup>1</sup> Financial Reporting Committee, I appreciate the opportunity to provide feedback on the Financial Accounting Standards Board's (FASB) proposal to limit unlocking of the assumptions and discount rates for long-duration insurance contracts to only the fourth quarter. While there are some advantages to limiting the unlocking to the fourth quarter, we believe that the disadvantages of this restriction outweigh its benefits. Therefore, based on the advantages and disadvantages outlined in our comments below, we recommend FASB not adopt this proposal.

We note that the proposal codifies a number of practices informally adopted by many insurers for routine assumption changes in universal life-type products. Most, if not all, of the assumptions for these products are unlikely to change more than once a year. As such, insurers typically schedule experience and expense studies so that assumption changes occur in a common quarter. The assumption changes often occur in the third quarter, but almost never in the fourth quarter. While this is typical informal practice, reporting entities do not delay the implementation of loss recognition or material assumption changes if they become known during other reporting periods in the year.

#### *Advantages*

Unlocking only in the fourth quarter would increase the comparability of the timing of reserve changes related to assumption updates. However, because risks do not emerge on a regular and

<sup>1</sup> The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.





