



Financial Security...for Life.

Mike Monahan

Senior Director, Accounting Policy

July 31, 2017

Russell G. Golden, Chairman
Financial Accounting Standards Board (the Board)
401 Merritt 7
Norwalk, CT 06856-5116

Re: Financial Services-Insurance (Topic 944) *Targeted Improvements to the Accounting for Long-Duration Contracts* (ED)

Dear Russ,

The American Council of Life Insurers (ACLI)¹ appreciates the opportunity to provide additional comments on the FASB Exposure Draft (ED) - Financial Services-Insurance (Topic 944) *Targeted Improvements to the Accounting for Long-Duration Contracts*. We are sending this letter as a follow-up to our letter to you dated May 5, 2017 (our May 5th letter), where we had re-stated ACLI concerns with respect to the ED's proposed retrospective method of updating assumptions for traditional insurance contracts. We continue to believe that a prospective method, accompanied by appropriate disclosures would provide a more faithful representation of the underlying long-term nature of these obligations, and we want to provide the Board with some valuable additional information prior to redeliberations on this important topic.

Over the past several weeks, the ACLI informally reached out to debt and equity analysts (both sell side and buy side) to confirm they understood the points raised in our May 5th letter, as well as to obtain any other observations they might have on the ED's proposed retrospective method. One of the observations made at the FASB Roundtable, held on April 19, 2017 (the Roundtable), was that analysts and others were uncertain about the earnings effect under the retrospective and prospective methods. What analysts we spoke to indicated was that they wanted to see the full difference between actual and expected reported in current period earnings. A retrospective method, however, would constantly re-measure prior period expected amounts whenever actual differed from expected. As illustrated in our May 5 letter, this restatement under the retrospective approach creates "smoothing" by partially offsetting the difference between actual and expected. This outcome would be inconsistent with analysts' expectations. The prospective method would report the full difference between actual and expected in the current period. Given the choice between retrospective and prospective, the analysts we spoke to indicated support for the prospective method for the key reasons outlined below:

¹ The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with approximately 290 member companies operating in the United States and abroad. ACLI advocates in state, federal, 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 94 percent of industry assets, 93 percent of life insurance premiums, and 97 percent of annuity considerations in the United States. Learn more at www.acli.com

- Impact on Analysts Models – Existing analysts’ models are generally designed to handle the current locked-in assumption accounting framework for traditional products. Under the retrospective method, where the net premium ratio would be unlocked retroactively when (a) actual results differ from expected results (potentially every reporting period) and when (b) future cash flow assumptions change (annually), it would be extremely difficult to model projected earnings and make year-over-year comparisons. In contrast, as noted above, the prospective method would result in the entire difference between actual and expected amounts being reported in the current period. This outcome would be more transparent with annual unlocking only affecting future estimates.
- Earnings Volatility/Non-GAAP Measures – A retrospective method would create significantly more short-term period-to-period earnings volatility when actual differs from expected and when assumptions are updated than a prospective method. The volatility under the retrospective method is not reflective of current period performance and, thus, may not be well understood by investors. The retrospective method could compel companies to adopt additional non-GAAP measures in order to remove procyclicality and other elements that cause their periodic earnings reports to be less reflective of current period performance.
- Cost/Benefit – Similar to concerns raised by ACLI and other constituents regarding the costs of applying the retrospective method (both initial and ongoing), the changes required to be made to analyst’s models would be extensive and potentially very costly, especially when compared to a prospective method.
- Disclosure – Analysts also suggested considering additional disclosures around available margins before making radical changes to the model for unlocking assumptions.

We ask the Board to take into account this feedback, in addition to feedback received from the FASB staff’s own user outreach, prior to any potential redeliberation on this important aspect of the ED. ACLI looks forward to working with FASB staff and Board members in addressing these and other constituents’ concerns prior to issuance of a final standard. Please let me know if you have any questions, and to schedule a time when we can meet to discuss in detail any points raised in our letter.

Sincerely,



Mike Monahan
Senior Director, Accounting Policy

cc: Susan Cospers, FASB Director of Technical Activities
Alex Casas, FASB Long-Duration Contracts Targeted Improvements Senior Project Manager
Jay Shah, FASB Long-Duration Contracts Targeted Improvements Assistant Project Manager