



**Mike Monahan**  
Senior Director, Accounting Policy

December 1, 2017

Mr. Russ Golden  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

*Re: File Reference No. 2017-280, Proposed Accounting Standards Update: Consolidation (Topic 812) - Reorganization*

Dear Mr. Golden:

The American Council of Life Insurers (“ACLI” or “we”)<sup>1</sup> appreciates the opportunity to comment on the proposed Accounting Standards Update – Consolidation (Topic 812): Reorganization (“Proposed ASU”).

The consolidation accounting guidance in Topic 810 has evolved over many years with several modifications. As updates are proposed, careful consideration is given to each word, each phrase, as well as the order of the proposed modifications to ensure there are no unintended consequences. Once an update is finalized, preparers spend a great deal of time and effort reviewing processes, updating documentation and re-evaluating entities to comply with the changes from the guidance.

The Proposed ASU does not provide adequate transparency for a thorough review to be completed. It is challenging for existing preparers to use and navigate as changes to move or amend existing guidance are not readily apparent. The Proposed ASU does not allow for the careful consideration of each change to language, phrasing, and the order of each, which would have been provided with previous exposures. Given the complexities associated with Topic 810, we are very concerned about potential unintended consequences of the Proposed ASU.

We do not believe it is necessary to reorganize Topic 810 into a new Topic 812. Without mapping to the existing Topic 810 and identification of amendments, we believe the costs of implementing the proposed reorganized standard would outweigh any benefits. We suggest that the Proposed ASU be re-exposed with both a clean and marked version to allow a more thorough review of the amendments. If re-exposed, we

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<sup>1</sup> 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 95 percent of industry assets, 93 percent of life insurance premiums, and 98 percent of annuity considerations in the United States. Learn more at [www.acli.com](http://www.acli.com).

recommend that ample time be allowed for users to carefully consider the proposals and to perform robust field testing to identify any unintended consequences. A re-exposure period would also provide users the opportunity to recommend clarifying improvements to the language.

The Proposed ASU includes amendments to clarify the existing language in ASC 810-10-15-14 which includes negatives and double negatives. We have reviewed the proposed changes to remove the negative and double negatives and agree that the language is clearer as updated. Also, the Proposed ASU includes clarifications regarding the use of the term “expected” within the consolidation guidance. We have reviewed these clarifications and believe they are consistent with current practice.

We have provided answers to selected questions in the Proposed ASU. We appreciate the opportunity to express our views. Should you have any questions regarding our comments please do not hesitate to contact me ([MikeMonahan@acli.com](mailto:MikeMonahan@acli.com)).

Sincerely,

A handwritten signature in black ink, appearing to read "M Monahan", with a stylized flourish at the end.

Mike Monahan  
Senior Director, Accounting Policy

## QUESTIONS FOR RESPONDENTS – ACLI COMMENTS

**Question 1: Would the reorganization of Topic 810 into a new Topic 812 with separate Subtopics for VIEs (Subtopic 812-20) and voting interest entities (Subtopic 812-30) be easier to understand and navigate? If not, please explain what other approaches the Board should consider.**

**ACLI Response:** We do not believe that reorganization of Topic 810 into a new Topic 812 is necessary. Although separating the variable interest entity (VIE) and voting interest entity (VOE) guidance into two subtopics may provide better organization, it does not necessarily follow that the guidance will be easier to understand and navigate. Many accounting firms provide consolidation guides that already serve to help preparers understand and navigate the guidance. Also, the Proposed ASU is challenging for existing preparers to use and navigate due to the lack of mapping to the existing Topic 810 guidance (i.e., changes to move or amend existing guidance are not readily apparent).

As mentioned in the Proposed ASU, the FASB acknowledged that the proposed reorganization of Topics 812-20 and 812-30 would result in the duplication of certain paragraphs of the standard. It is not clear if the duplication is necessary or if the duplicative wording can be included in an “Initial Measurement” or “Recognition” subtopic, with the “Initial Measurement” or “Recognition” Topic directing the user to either subtopic 812-20 or 812-30 once the user concludes that the entity being evaluated for consolidation is a VIE or VOE. Also, if the consolidation guidance is reorganized, we believe it should follow as closely as possible to the various decision trees in the Topic (e.g., 812-10-05-10, etc.). However, as noted previously, we do not believe that reorganization of Topic 810 into a new Topic 812 is necessary.

**Question 2: Is the guidance for “Consolidation of Entities Controlled by Contract” applicable only for not-for-profit entities and, thus, should be within Topic 958? If not, please explain why.**

**ACLI Response:** No comment.

**Question 3: Is the consolidation guidance for research and development arrangements currently in Subtopic 810-30 not used in practice and, therefore, should be superseded? If not, please explain why or why not and the types of transactions that may still be within the scope of that Subtopic.**

**ACLI Response:** No comment.

**Question 4: Are there any areas or items in proposed Topic 812 that, as reorganized or clarified, are difficult to understand? If so, please describe the areas or items and explain why they are difficult to understand.**

**ACLI Response:** The Proposed ASU is difficult to understand in its entirety due to the lack of transparency between the existing Topic 810 guidance and the Proposed ASU. This lack of transparency is a departure from other exposure drafts and final accounting standards updates where the FASB typically underlines additions and strikes out deletions to highlight changes to existing guidance. For example, in Accounting Standards Update 2016-13 – *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), paragraphs were moved from existing topics to the new Topic 326 and were clearly marked as amendments. The following example shows paragraph 310-10-35-32 stricken from Topic 310 with the new paragraph number in Topic 326 noted.

**310-10-35-32** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~Regardless of the measurement method, a creditor shall measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable. When a creditor determines that foreclosure is probable, a creditor shall remeasure the loan at the fair value of the collateral so that loss recognition is not delayed until actual foreclosure.~~ **[Content amended and moved to paragraph 326-20-35-4]**

Within ASU 2016-13 the paragraph is shown in its new location, 326-20-35-4, with any amendments underlined or stricken and a note identifying where the original language was located.

**326-20-35-4** Regardless of the initial measurement method, an entity a creditor shall measure expected credit losses impairment based on the ~~{add glossary link to 2<sup>nd</sup> definition}~~**fair value**~~{add glossary link to 2<sup>nd</sup> definition}~~ of the collateral when the ~~creditor~~ entity determines that foreclosure is probable. When an entity a creditor determines that foreclosure is probable, the entity a creditor shall remeasure the **financial asset** loan at the fair value of the collateral so that the reporting of a credit loss ~~loss recognition~~ is not delayed until actual foreclosure. An entity also shall consider any credit enhancements that meet the criteria in paragraph 326-20-30-12 that are applicable to the financial asset when recording the allowance for credit losses. **[Content amended as shown and moved from paragraph 310-10-35-32]**

This contrasts with the Proposed ASU where movement from existing guidance was not noted and amendments were not underlined or stricken. Although we understand the desire to provide an easily readable document, presenting the document without markings makes it challenging to review for any needed updates to current documentation and policies and to identify any unintended consequences. If the FASB continues with the consolidation guidance reorganization project, we suggest that the Proposed ASU be re-exposed with both a clean and marked version to allow a more thorough review of the amendments. Alternatively, we suggest that a mapping matrix be provided to identify where the existing Topic 810 references were moved or removed in the Proposed ASU, in addition to noting any amendments by underlining new and striking out old language. If re-exposed in 2017 or early 2018, we recommend that a longer review period be provided if the timing coincides with calendar companies' year-end reporting periods.

Given the complexities associated with Topic 810 and the various modifications that have occurred over many years to the consolidation guidance, we do not recommend the proposed changes be made at this time without robust field-testing and more time for users to consider the re-exposed proposal for potential impacts. We are very concerned about potential unintended consequences of the proposed changes. In its current form (i.e., without mapping to existing Topic 810), we believe the costs of implementing the proposed reorganized standard would outweigh any benefits. Topic 810 has been applied by companies for several years and modifications will take significant time to evaluate.

## Transition

**Question 5:** Given that the Board does not anticipate changes to accounting for consolidation or changes in outcomes reached as a result of the amendments in this proposed Update, should transition guidance be provided? If so, please explain what changes in this proposed Update may cause changes in practice or outcomes.

**ACLI Response:** If the Board does not anticipate changes in practice or outcomes from the reorganization of consolidation guidance in this Proposed ASU, then transition guidance should be unnecessary. However, as noted in question 4, due to the lack of transparency between the existing guidance in Topic 810 and the Proposed ASU, it is difficult to assess if there will be any unanticipated changes in practice or outcomes resulting from the exposure draft.

**Question 6:** Do you agree with the proposed transition requirements in paragraph 812-30-65-1? If not, what transition approach would be more appropriate?

**ACLI Response:** As noted in question 5, transition guidance should be unnecessary. However, if transition guidance is provided, we believe prospective application would be appropriate. A retrospective application as proposed in paragraph 812-30-65-1 may result in the need for all past policies and assessments to be restated. We do not believe the benefits would justify the costs of such a restatement.

**Question 7:** Should a reporting entity be required to provide the transition disclosures specified in the amendments in this proposed Update? Should any other disclosures be required? If so, please explain why.

**ACLI Response:** Similar to questions 5 and 6, if the Board does not anticipate changes in practice or outcomes from the reorganization of consolidation guidance in the Proposed ASU, then the disclosures in Subtopic 250-10 for a change in accounting principle should not be necessary.

**Question 8:** Should the effective date be the same for both public business entities and entities other than public business entities?

**ACLI Response:** If issued, we believe a prospective application of the guidance should be applied on the same effective date for both public business entities and entities other than public business entities.

**Question 9:** How much time would be needed to implement the proposed amendments? Should entities other than public business entities be provided with more time? If so, how much more time?

**ACLI Response:** If the Proposed ASU does not result in any changes in practice or consolidation outcomes, then we would recommend no more than one year from issuance of final guidance to the date of adoption. However, as noted previously, due to the lack of transparency between the existing guidance in Topic 810 and the Proposed ASU, we cannot properly comment on this exposure draft or understand if there are any unintended consequences of the changes.