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Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board (the Board)  
401 Merritt 7  
Norwalk, CT 06856-5116  
Submitted via e-mail to: [acasas@fasb.org](mailto:acasas@fasb.org)

Re: Definition and accounting guidance of Market Risk Benefits in Proposed Accounting Standards Update: Financial Services-Insurance (Topic 944) *Targeted Improvements to the Accounting for Long-Duration Contracts* (ED)

Dear Technical Director Cospers,

The American Council of Life Insurers (ACLI)<sup>1</sup> 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* specifically with respect to the definition and application of the accounting guidance for Market Risk Benefits (MRBs).

We acknowledge the decisions made at the October 4, 2017 and November 1, 2017 Board meetings to expand the scope of the Market Risk Benefits (“MRB”) definition to include general account products. The expansion of the definition resulted in significant uncertainty by ACLI members as to the intended and actual scope of the revised guidance that led to a conference call with staff and Board member at the ACLI Accounting Committee meeting held December 13, 2017. During the call, we expressed concern about the potentially broad scope of the guidance as well as unintended consequences resulting in the changes to the definition, for example, the meaning of “or similar amount” and its relationship to an account value. The dialogue was instructive and helpful to understand the intent of the proposed changes to the MRB guidance. As a result, we believe that greater clarity of the definition is necessary before finalizing the changes to existing accounting guidance for long-duration contracts.

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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 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](http://www.acli.com)

We believe the FASB's proposal should focus on the targeted improvement of achieving comparability in accounting for product features where diversity in practice exists today. The purpose of this letter is to offer recommended changes with rationale for our proposals to enhance the quality and consistency of the proposed targeted improvements. Our focus is on the following.

#### Shortcomings of a Principles-Based Approach

We acknowledge the FASB's desire to create a principles-based definition of MRBs to ensure the accounting guidance can achieve its objectives not only for existing products in the marketplace but also to accommodate product development that will occur over time. However, as we evaluate and test the FASB's proposal, we have taken reasonable interpretations of the revised definition that scope in features indirectly or unrelated to market risks such as minimum interest crediting rates and death benefits on fixed universal life insurance products. Therefore, the definition would either need specific carve-outs or modified to be narrow and limited in scope.

#### Excluding Traditional Life Contracts and Death Benefit Features

The scope of the revised MRB definition should be limited to Investment Contracts and Universal Life-Type Contracts as defined in Subtopic 944-20 of Codification, as reserves for traditional life insurance products already reflect the appropriate measurement of product features. As such, we strongly recommend the FASB revise the MRB scope to focus on the targeted improvement of achieving comparability in accounting for features where diversity in accounting practice exists today. Specifically, the MRB guidance should be limited to expanding fair value measurements to include benefits and guarantees with risks primarily related to capital markets, that are not closely related to the insurance contract. We continue to believe that contract features that are settled due to death should be accounted for as insurance (as opposed to using a fair value measurement) since the significance of the mortality outweighs the significance of the capital market drivers, primarily due to the fact that the contract holder cannot elect to receive the benefit. In addition, one of the major proposed targeted improvements is the unlocking of assumptions for traditional contracts. Similarly, the benefit ratio reserve produces comparable results for death benefit features to which it is applied. The effect is that the measurement of long-duration insurance liabilities would represent a current value without the complexity of significantly expanding the scope of contracts to which fair value is applied. Consequently, we believe that the revised MRB definition (as outlined below), coupled with the proposed changes to the measurement of traditional contract liabilities, will achieve the FASB's objective of improving comparability.

Following the above principles, death benefits, surrender values, minimum interest rates and interest guarantees should not be in scope of the MRB definition but should continue to be subject to the applicable guidance in Topic 944.

#### Interaction with other Codification sections, e.g., 815

We recognize that crediting rates on indexed accounts for fixed indexed annuities are currently measured at fair value under Topic 815, and that the MRB definition may or may not include this contract feature depending on the final definition. Our recommendation is for crediting rates in fixed indexed annuities to remain in Topic 815, rather than result in unintended consequences by developing a principle to scope them into Topic 944.

## Recommendation

We propose the following MRB definition:

944-40-25-25C A market risk benefit shall be recognized for benefits that meet both of the following criteria:

- a. An Investment Contract or Universal Life Type Contract that has an account balance that can decrease in value as a result of adverse changes in capital market performance. A decrease in account value due to fees charged or negative interest credited rate is not a result of adverse changes in capital market performance.
- b. The insurance entity provides a benefit protecting the contract holder from adverse capital market performance, exposing the insurance entity to other than nominal capital market risk. A nominal risk, as explained in paragraph 944-20-15-21, is a risk of insignificant amount or a risk that has a remote probability of occurring. A benefit is presumed to have other-than-nominal capital market risk if the net amount at risk (that is, the guaranteed benefit in excess of the account balance or cash value) varies more than an insignificant amount in response to capital market volatility. Capital market risk includes equity, interest rate, and foreign exchange risk. A benefit that is payable solely upon death is not a market risk benefit.

If a long-duration contract contains multiple market risk benefits, those market risk benefits shall be bundled together as a single, compound market risk benefit (consistent with the guidance in paragraph 815-15-25-7).

The above proposed definition would achieve the FASB's goal of greater comparability to the accounting for certain features where diversity in practice exists and reporting those features at fair value, primarily guaranteed minimum income and withdrawal benefits on variable annuities. Death benefits or other insurance benefits or features, would be measured under the appropriate section of Topic 944. The proposed definition would also provide more clarity such that interpretations would not result in features that are indirectly related to market benefits being included in the scope.

We ask the Board to take into account the recommendations herein prior to issuance of a final standard. We welcome the opportunity to meet with the Board and staff to answer any questions you may have on our recommendations.

Sincerely,



Mike Monahan  
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cc: Alex Casas, FASB Long-Duration Contracts Targeted Improvements Senior Project Manager  
Jay Shah, FASB Long-Duration Contracts Targeted Improvements Assistant Project Manager