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February 2, 2018

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P. O. Box 5116  
Norwalk, CT 06856-5116

Re : File Reference No. 2018-210, Proposed Accounting Standards Update – *Income Statement – Reporting Comprehensive Income* (Topic 220)

Dear Technical Director:

The American Council of Life Insurers (ACLI)<sup>1</sup> welcomes the opportunity to offer comments on this exposure draft, issued January 18, 2018, by the Financial Accounting Standards Board (“Board” or “FASB”). The ASU proposes reclassification of certain tax effects from Accumulated Other Comprehensive Income (AOCI). The Board invited comments, due February 2, 2018, on all matters in the proposed ASU and, more specifically, on 5 questions. ACLI’s comments on the 5 questions are set forth below.

**Question 1:** Do you agree with the amendments in this proposed Update that would require a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate? If not, why?

**ACLI Response:** Yes, ACLI agrees with these amendments.

**Question 2:** Are the transition requirements appropriate? If not, what transition approach is more appropriate and why?

**ACLI Response:** Yes, ACLI believes the transition requirements are appropriate.

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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 policyholders 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)

**Question 3:** Do you agree that early adoption should be permitted?

**ACLI Response:** Yes, ACLI agrees that early adoption should be permitted.

**Question 4:** Do you agree with the proposed effective date? If not, what effective date is more appropriate and why?

**ACLI Response:** Yes, ACLI agrees with the proposed effective date.

**Question 5:** GAAP generally prohibits *backwards tracing*, which is the process of recognizing the effects of changes in deferred tax amounts in the current year in the same line item in which the deferred tax amounts were originally recognized (for example, other comprehensive income) in prior years. The Board did not allow backwards tracing as part of this project and is currently researching the merits of a broader project on backwards tracing. Should the Board add a broader project on backwards tracing to its active agenda? If so, why? Additionally, should the following alternatives to backwards tracing be considered in that broader project? If so, why?

- a. Accounting for the release of the stranded tax effects from accumulated other comprehensive income
- b. Reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with *prior changes* in other tax rates (for example, state and local taxes)
- c. Reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with all *future changes* in tax rates.

**ACLI Response:** For the reasons explained below, ACLI believes that the Board should add a broader project on backwards tracing to its active agenda and that the alternatives to backwards tracing set forth above should be considered in that broader project.

Magnitude of Life Insurance Company Investments Carried in AOCI. In its December 21, 2017 letter, ACLI stressed the importance of this classification issue to the life insurance industry and noted that its significance is amplified by the magnitude of investments carried at fair value in AOCI by the industry. As stated in the letter, the life insurance industry holds approximately \$3 trillion of investment grade bonds, a significant amount of which are classified as available for sale and carried at fair value by recording unrealized gains and losses net of deferred tax in AOCI.

Impact on Financial Metrics. In addition, key financial metrics for life insurers, such as “book value” and “return on equity” are generally determined exclusive of AOCI to eliminate market-related volatility of investment valuations. Accordingly, the classification of items as between AOCI and retained earnings is of significant importance to life insurance companies and their investors and other users of their financial statements.

Other Potential Mismatches. First, some ACLI members with foreign and multi-state operations also have mismatched items in AOCI relating to foreign and/or state and local tax rate or law changes. Second, mismatches can arise with respect to valuation allowance adjustments relating to deferred tax assets reflected in AOCI. Third, mismatches could arise in AOCI relating to tax law changes (e.g., treatment of foreign operations) other than the U.S. corporate tax rate reduction. ACLI believes that these issues should be considered as part of any broader project on backwards tracing.

With respect to the alternatives set forth in Question 5, ACLI notes that they are interdependent in that Alternatives B and C are reliant on the considerations in Alternative A. Having said that, if backwards

tracing is not allowed, ACLI supports consideration in the broader project of the comprehensive approach – dealing with both prior and future tax rate changes – encompassed by Alternatives A, B, and C.

ACLI proposed in its December 21, 2017 letter that the Board act to provide transition guidance that would allow a reclassification of amounts between AOCI and retained earnings to eliminate the mismatch between historical tax rates and current tax rates, and that this guidance be applicable to all previous changes, not just current tax reform, thereby resetting AOCI balances to current enacted tax rates.

The proposed ASU would grant this request only in part – i.e., only for the recently enacted change in the U.S. federal income tax rate. As noted above, some ACLI members also have, or could experience in the future, stranded tax effects in AOCI for other reasons. Accordingly, consistent with the request in its December 21, 2017 letter, ACLI requests that the Board add a broader project on backwards tracing to its active agenda and that such project address, through backwards tracing or alternative approaches, the release of stranded tax effects from AOCI associated both with prior and future changes in tax rates or laws.

ACLI thanks you for the opportunity to comment, and we look forward to pursuing the matters discussed above with the Board in greater detail.

Sincerely,



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