



**Mike Monahan**  
Senior Director, Accounting Policy

February 20, 2018

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board (“FASB” or the “Board”)  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

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

Dear Technical Director Cospers,

The American Council of Life Insurers (ACLI)<sup>1</sup> has a recommendation regarding the tentative decision made on August 2, 2017 pertaining to transition guidance on the liability for future policy benefits for long-duration nonparticipating traditional and limited payment insurance contracts.

We are appreciative of the Board’s decision to require a prospective transition approach with the option to elect a retrospective transition approach if the necessary criteria are met. This decision addressed our concerns regarding the potential cost and complexity associated with transition for the above-mentioned contracts. Our understanding of the prospective approach, aka pivot method, is that the current value of the liability carrying amount (excluding reserves impacting AOCI) would be the liability value at transition. However, the transition value would incorporate updated cashflow assumptions and current discount rates (upper medium grade fixed income instrument yields) to determine revised Net Premium Ratios (NPRs)/Deferred Profit Liabilities (DPLs). We also understand that the NPRs would be capped at 100% and the DPLs would be floored at zero. To the extent that incorporating updated cashflow assumptions and current discount rates result in an implied net premium ratio more than 100%, the liability value at transition would exceed the existing carrying value, resulting in a corresponding charge to retained earnings (i.e., loss recognition at transition).

We recommend that the FASB consider allowing preparers, who use the pivot method, the option to determine the liability value at transition with net premiums calculated using discount rates based on the upper medium grade fixed income instrument yields in effect at contract inception or last date loss recognition was triggered. This would create the following financial reporting benefits:

---

<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).

- Better alignment of the pattern of profit emergence between in force business and new business post transition.
- For blocks of business sold in significantly higher interest rate environments, this would help avoid the situation where a Loss Recognition type of event would be reported through retained earnings at transition.
- Better alignment in Accumulated Other Comprehensive Income (AOCI) of the impact of current interest rates and duration on Available-for-Sale (AFS) Fixed Income Securities and the corresponding insurance liabilities.
- From a cost-benefit perspective, this would provide preparers and users with most of the benefit of a retrospective transition date (approximate matching of discount rates) without the significant costs and burden of having to recover historic cash flows by cohort.

We acknowledge that this would be more complex than simply using the discount rates from the transition date and may require estimation of rates for business issued long ago, but the financial reporting benefits derived from our recommendation would outweigh this. As noted above, in addition to impacting the calculation of the liability and net premium ratios at transition, this would result in amounts reported in AOCI at transition for these contracts.

We ask that language similar to the proposal below to be added to the transitional guidance if the Board agrees with our recommendation:

*Under a prospective transition method, an insurance entity would apply the amendments to all contracts in force on the basis of their carrying amounts at that date, adjusted for the removal of any related amounts accumulated in Other Comprehensive Income. When applying the prospective transition method, an insurance entity shall record the current value of the liability for future policy benefits that is determined based on a revised net premium ratio using updated expected cash flows information, discounted at the upper medium grade fixed income instrument yield in effect either (a) at the transition date or (b) at contract inception or last loss recognition event. If the net premium ratio exceeds 100% or is less than 0%, the insurance entity shall record an adjustment to opening retained earnings. Additionally, at the transition date, to the extent an insurance entity has elected (b) above, (i.e., to value the liability for future policy benefits at transition using rates in effect at contract inception or last loss recognition event), an insurance entity should compare the liability for future policy benefits calculated under the prospective transition method and the liability for future policy benefits measured using current discount rates (that is, the updated upper-medium grade fixed income instrument yield as of the transition date) with the difference in the liability for future policy benefits balance recorded to accumulated other comprehensive income.*

Thank you for your consideration of this proposed change. If you have any questions or would like for us to meet on this, please let us know.

Sincerely,



Mike Monahan  
Senior Director, Accounting Policy

cc: Alex Casas, Senior Project Manager