



**Michael Monahan**  
Senior Director, Accounting Policy

June 20, 2018

Mr. Russell Golden, Chairman  
Financial Accounting Standards 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 (ED) – Effective Date Decision at June 6, 2018, Meeting

Dear Mr. Golden:

The American Council of Life Insurers (ACLI)<sup>1</sup> would like to commend the Board and the FASB staff on nearing the completion of this multi-year project to review and make improvements to the accounting for long-duration contracts sold by insurance companies. Notwithstanding the fact that the ACLI has supported a prospective approach to reflect changes in future cash flows when unlocking assumptions, we appreciate the Board's efforts since the issuance of the ED in September of 2016 in reaching several decisions that were designed to reduce the cost and complexity of certain aspects of implementation expected both at transition and on an ongoing basis.

We are writing to express our significant concern with the effective date decision made at the June 6, 2018, meeting, which gives public companies just over 2 years to implement. We do not believe this date is realistic and strongly urge the Board to reconsider their decision prior to the issuance of a final standard by extending the effective date for at least one additional year. We do not believe it is advisable for the Board to "wait" and see if preparers will be able to implement by this date and "later" consider potentially extending the effective date.

In ACLI's comment letter response to the ED, dated December 15, 2016, we stressed several key drivers (Response to Question 20) and costs and complexities (Response to Question 23) that the Board should consider when deciding on an effective date, with a recommendation of an effective date of 4 years following the issuance of the standard for public companies. Recognizing that the Board has made changes since the ED that would reduce the effort required for implementation, but also recognizing that these changes go well beyond what may be considered "Targeted" in their technical and operational

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<sup>1</sup> The American Council of Life Insurers (ACLI) advocates on behalf of approximately 290 member companies dedicated to providing products and services that contribute to consumers' financial and retirement security. ACLI members represent 95 percent of industry assets, 93 percent of life insurance premiums, and 98 percent of annuity considerations in the United States. 75 million families depend on our members' life insurance, annuities, retirement plans, long-term care insurance, disability income insurance and reinsurance products. Taking into account additional products including dental, vision and other supplemental benefits, ACLI members provide financial protection to 90 million American families. Learn more at [www.acli.com](http://www.acli.com)

complexity, we do not believe that 4 years should be reduced to the 2 years and 4 months expected for a first quarter 2021 implementation for the following reasons:

- Despite some of the simplifications included in these changes, insurance accounting remains very complex. Preparers, along with the actuarial and auditing communities, will need sufficient time to identify and resolve all implementation issues that will undoubtedly arise as companies research and estimate the significant impact these changes are expected to have on their balance sheets at transition and income statements going forward. Targeted improvements is essentially the insurance industry's version of Revenue Recognition (i.e., changes our fundamental accounting model for our business) and should be expected to require, at a minimum, a similar amount of time to implement. Revenue recognition ultimately had a 3 ½ year implementation period, and Financial Instruments - Credit Losses ("Credit Losses") has a 3 ½ year implementation.
- Given that there have been a number of significant changes to the standard since the ED and there has been limited, if any, field testing of the original proposal, ample time will be needed to review the final standard once issued, develop, test and document internal policies and methodologies, and identify and resolve any issues that are uncovered during the testing and development phase.
- Once the implementation issues are addressed, it will take a considerable amount of time to properly educate (a) company personnel from the C-Suite down to the staff level, (b) rating agencies, (c) investors, (d) regulators and other financial statement users of the expected impact, which will most likely include, for public entities, a complete analysis of potential changes to management reporting bases (i.e., segment income statement reporting measures). Companies will also need to address any secondary impacts (e.g., debt covenants, etc.) and also, at a minimum, will be revisiting their current investment and hedging strategies, product designs, etc., all of which takes time.
- Significant changes to systems, processes, and procedures will be required to perform the required calculations for policy liabilities, DAC, and market risk benefits, including tracking and retaining the additional data needed to retroactively update cash flows, and developing all of the new quantitative disclosures. Insurers may be required to significantly overhaul – or, in some cases, replace – existing valuation systems in order to comply with the new guidance. The process of making changes to valuation, data retention, and other systems can take up to 12-18 months and cannot begin until the initial review and analysis of the final standard is complete.
- A first quarter 2021 implementation date will put a significant strain on public companies' ability to design, build, and test internal controls with respect to new and revised systems, processes and procedures to remain in compliance with Sarbanes-Oxley. In addition, companies' external auditors will need sufficient time to perform their procedures necessary to render an opinion on the financial statements and internal control over financial reporting.
- Adding to companies' concerns is that this significant effort comes at the same time all of the following is happening:
  - Other US GAAP accounting standards impacting insurance companies that become effective over the next couple of years will continue to consume a significant amount of accounting resources at preparers, consultants and audit firms over the next 18 months:

- January 1, 2019 – Leases, Premium on Purchased Callable Debt Securities, Derivatives and Hedging
  - January 1, 2020 – “Credit Losses”
- IFRS 9 (Financial Instruments and Hedging) and 17 (Insurance Contracts) are effective January 1, 2021 for insurance entities, calling for wide-sweeping systems, process, and procedures changes for non-US based insurers with US operations, and US-based insurers with non-US operations. Even for US companies with little or no non-US operations, these standards are already consuming an increasingly unprecedented amount of already limited insurance accounting and actuarial resources all over the world, and this is expected to continue for the next 2-3 years.
  - State regulators have implemented a principles-based reserving (“PBR”) approach for individual life insurance and are making significant changes to the reserving for variable annuities. The PBR framework became effective in 2017 and can be adopted any time during a 3-year transition period, while the variable annuity reserve changes are expected to be effective in 2020. The adoption of these changes will require a significant commitment of actuarial and accounting resources.
- Finally, while we understand the Board may have had comparability concerns with a significant time gap between the earliest adoption date (1/1/2019) and a later adoption date (e.g., 1/1/2022), ACLI does not foresee a significant number of insurance companies, if any, that currently issue US GAAP financial statements realistically being able to early adopt the standard a few months after it is issued, for the reasons outlined above. As such, we do not believe this should have a significant impact, if any, on the effective date decision.

The accounting for long-duration insurance contracts has undergone some changes since the basic US GAAP accounting models for non-participating products were established in the mid to late 1980s. However, this current round of changes is expected to have the most widespread impact on insurance company balance sheets and profit emergence patterns going forward, affecting nearly all products and lines of business of most life insurers. Such a widespread change in accounting, reporting and disclosures, has implications that go well beyond the finance department at most insurance companies.

ACLI respectfully requests the Board reconsider the effective date before issuing a final standard, and provide companies one more year to properly implement, even if this delays the issuance of the final standard by a few weeks. Taking the time to properly address the industry’s concerns with the effective date now by extending the effective date one year would maintain alignment with other recently issued major standards, such as Revenue Recognition and Credit Losses, and avoid the inevitable, and we believe inefficient, process of revisiting, and most likely having to defer, the effective date six to nine months from now, because all of the above factors we have mentioned will still exist. If you have any questions or would like to meet with us on this, please let us know as soon as practicable.

Sincerely,



Mike Monahan  
Senior Director, Accounting Policy

cc: Alex Casas, Senior Project Manager