



Principal Financial Group®
711 High Street, Des Moines, IA 50392
D 515.247.5111 / T 800.986.3343
www.principal.com

Deanna D. Strable
*Executive Vice President and
Chief Financial Officer*
(515) 247-5514
Strable.Deanna@principal.com

Angela R. Sanders
*Senior Vice President and
Controller*
(515) 248-2292
Sanders.Angie@principal.com

June 22, 2018

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

Re: Effective Date of Proposed Guidance on Insurance Contracts (Topic 944)

The Principal Financial Group (“Principal”) appreciates the opportunity to offer our views on the Financial Accounting Standards Board’s (“FASB”) recent decision regarding the effective date of the Targeted Improvements to the Accounting for Long-Duration Contracts. Principal helps people and companies around the world to build, protect and advance their financial well-being with our retirement, insurance and asset management expertise. With innovative ideas and real-life solutions, we make financial progress possible for clients of all income and portfolio sizes. A member of the FORTUNE 500®, the Principal Financial Group has \$673.8¹ billion in assets under management and serves 22 million customers with offices in 19 countries throughout Asia, Australia, Europe, Latin America and North America. Principal Financial Group, Inc. is traded on the Nasdaq under the ticker symbol PFG.

We commend the FASB for their efforts to revise the proposed guidance over the years to incorporate input from a wide variety of stakeholders. However, we have significant concerns with the effective date decision made at the June 6, 2018, meeting. We participated in drafting the unsolicited comment letter by the American Council of Life Insurers (“ACLI”) regarding the effective date, and we agree with the concerns expressed in the ACLI’s response. In addition to supporting the ACLI letter, we wanted to take the opportunity to share Principal’s views and respectfully ask the Board to reconsider the effective date of the proposed guidance. Specifically, to mitigate our concerns as noted in this letter, we ask the Board to change the effective date for public companies to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. We believe this implementation period will allow us sufficient time to implement the extensive changes this standard requires in an appropriate risk environment.

We previously provided comments to the FASB in a comment letter dated December 15, 2016, on the FASB’s Exposure Draft on Targeted Improvements for Long-Duration Contracts (“Exposure Draft”). In our response to question 20, which asked for feedback on key drivers affecting the timing of implementation and how they affect the time it will take to implement the proposed amendments, we indicated that we needed a minimum of four years to implement the standard, even if the FASB provided relief in certain areas.

¹ As of March 31, 2018

We acknowledge and appreciate that the FASB has made changes during redeliberations to reduce the complexity of implementing the new guidance, including allowing the guidance to be adopted prospectively rather than retrospectively as well as removing the proposed guidance on participating contracts from the scope of the proposal. We anticipate that these changes will result in some reduction in the amount of time required for implementation as we will no longer have to gather a significant amount of historical data for traditional contracts. However, the changes made by the FASB do not significantly change the timeline needed to implement the new guidance.

Even with the changes the FASB has made, the proposed guidance represents a complete overhaul of the financial reporting framework for traditional insurance contracts, market risk benefits and deferred acquisition costs ("DAC"). Today, as a multi-line company, we rely on a variety of customized and product focused systems to calculate these balances. These systems generally use older technology (since they were initially set up many years ago based on the current guidance where the underlying models and inputs were not updated after inception) and include both vendor and home-grown applications. The changes to the liability for traditional insurance contracts will require the most significant systems changes. In particular, we will need to modify our systems to:

- Track actual historical experience at the cohort level (for contracts that are still in force, as well as contracts that have terminated) over the life of the policies. Because insurance contracts can remain outstanding for 100 years or more, this will require us to retain large amounts of experience data for a very long period of time.
- Recalculate the net premium ratio to reflect actual experience and updated future assumptions, and perform attribution analysis to quantify the impact of experience and assumption changes. The systems and models for this need to be set up to perform calculations each reporting period, even if a specific assumption does not change in any period.
- Calculate the liability balance each reporting period using both locked-in interest rates and current interest rates. We believe that the new guidance on discount rates will require us to value contracts using a full yield curve, whereas today, many products are valued using a single discount rate.

These changes represent a significant increase in the complexity of the liability calculation, and they will require a substantial amount of time to implement. In addition, we will need to perform extensive testing and validation to ensure the accuracy of the calculations.

Updates to our models, systems and processes will require a joint effort with our software vendors who are now starting to consider changes to their systems as the new guidance is closer to being final. Due to the uncertainty regarding the timing and content of the final guidance, vendors have not yet been able to commit to a timeframe for modifying their systems. Any delay by vendors in providing systems capable of handling the robust calculations required by the new guidance increases the risk that we may be unable to complete our full implementation and testing activities by the effective date. This may result in us having to implement short-term solutions solely to comply with the effective date rather than implementing robust long-term solutions that make sense for our business, provide quality information to financial statement users and are more cost-effective for our customers and investors. We believe the expectation to perform all the above activities in two years could create substantial and unnecessary risk in our financial reporting processes.

Principal has closely monitored the FASB's deliberations over the past several years and provided feedback on several occasions. We have spent a significant amount of time and effort gaining an understanding of the proposed changes and assessing the potential impacts. However, it is difficult for any company to obtain additional resources and begin substantive implementation efforts before a final standard is issued. In recent months, we have begun the process of developing a project plan for the implementation of the new guidance. We have identified the key tasks that we will need to perform, developed a preliminary timeline, and estimated the resources (including existing staff, new hires, and consultants) that will be needed. We anticipate that the implementation effort will require a

significant increase in accounting, actuarial and IT staff. Given the specialized skill sets that will be required, we have concerns regarding the feasibility of hiring and training the necessary staff within the time allotted. In addition, many of the changes to our systems and processes will require a timeline where tasks must be done sequentially (i.e. systems must be in place before models can be created, and models must be created before they can be tested) with little room to be compressed.

The following represents the most significant efforts we have identified to implement this proposed guidance:

- Significantly change systems and processes, as discussed above.
- Create new actuarial models to perform the required calculations, including developing processes for updating cash flow assumptions, calculating and updating discount rates, and tracking experience at the cohort level. As noted above, this workstream is very dependent on updated systems from vendors.
- Develop policies and procedures to determine whether assumptions have changed materially each reporting period and to support our decision to update an assumption or not.
- Develop a new framework and models to calculate the fair value of market risk benefits not currently recorded at fair value.
- Change DAC models for all products to reflect amortization on a constant basis over the expected life of the contract, and create new DAC models for products where we didn't have DAC before. (We currently do not establish a DAC balance on single premium payout annuity products because the entire DAC balance would be amortized as soon as the premium is paid. However, with the change in the DAC amortization guidance, we will now be required to calculate a DAC balance for these products.)
- Test all models to ensure the accuracy of the calculations. Due to the complexity of the calculations, extensive testing and validation will be required.
- Significantly change our systems and processes to track and retain the additional data needed for the new disclosures, some of which we may not track today.
- Develop and deliver the extensive education that will be needed for both internal and external stakeholders on the new guidance.
- Develop appropriate internal controls and oversight over the calculation, reporting and disclosure processes.

Further, based on the effective date proposed by the FASB, the implementation period for the insurance contracts guidance will overlap with the implementation period for several other significant initiatives in our industry, including statutory principles based reserving, new GAAP accounting guidance for financial instruments (credit losses and hedging), and international financial reporting standards on insurance contracts. All of these initiatives require significant systems, internal controls and resources to implement and will produce competition for available resources, including our employees, external consultants and auditors.

We note that other recent accounting standards (which have impacted us less) have had longer implementation periods than what is being proposed here. For example, guidance on measuring credit losses in financial instruments was issued in June 2016 and is effective for public companies for fiscal years beginning after December 15, 2019, resulting in an implementation period greater than three years. Revenue Recognition guidance was issued in May 2014 and was initially effective for public companies for fiscal years beginning after December 31, 2016. However, in August 2015, the FASB issued Accounting Standards Update ("ASU") 2015-14 which extended the effective date for public companies to fiscal years beginning after December 31, 2017, resulting in an implementation period greater than three years. In paragraph BC5 in the Basis for Conclusions of ASU 2015-14, the FASB noted that reasons for extending the effective date included "complete information technology solutions to facilitate implementation of the guidance... generally were unavailable" and "internal controls over new systems and processes resulting from the guidance...generally could not be fully designed and fully implemented until information technology solutions to facilitate implementation of

the new revenue standard become available.” Further, paragraph BC15 in the Basis for Conclusions of ASU 2015-14 notes that “some entities may have insufficient time to implement the guidance...without the deferral, which could affect the quality of financial information provided to users of the financial statement and could be more costly for those users in the long term.” We anticipate that insurers will encounter similar challenges when trying to implement the proposed insurance contracts guidance within the timeframe proposed by the FASB. While we understand this guidance only impacts a single industry, it represents one of the most significant and impactful pieces of accounting guidance the insurance industry has ever implemented and merits adequate time to implement to ensure it produces the benefits the FASB believes it will produce for users of our financial statements.

In summary, to mitigate our concerns noted in this letter, we ask the Board to change the effective date for public companies to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. We believe this implementation period will allow us sufficient time to implement the extensive changes this standard requires in an appropriate risk environment. Should the FASB not wish to extend the date for the entire standard, we ask that the FASB consider staggered effective dates of the various components (without providing optionality). For example, the effective date for changes around DAC and market risk benefits (and their related disclosures) could remain for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 with the rest of the standard (and the related disclosures) effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022.

We appreciate your consideration of our comments. If you would like to discuss this letter, please contact Deanna at (515) 247-5514 or Strable.Deanna@principal.com or Angie at (515) 248-2292 or Sanders.Angie@principal.com.

Sincerely,



Deanna D. Strable
Executive Vice President and Chief Financial Officer



Angela R. Sanders
Senior Vice President and Controller