



Mike Monahan
Senior Director, Accounting Policy

January 18, 2019

Ms. Susan Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: Exposure Draft: File Reference No. 2018-300 – Codification Improvements-Financial Instruments

Dear Ms. Cospers:

The American Council of Life Insurers¹ (“ACLI” or “we”) appreciates the opportunity to comment on the FASB Proposed Accounting Standards Update – Codification Improvements-Financial Instruments, which includes proposed changes to Accounting Standards Update (“ASU”) 2016-13 (Credit Losses), ASU 2016-01 (Recognition and Measurement), and ASU 2017-12 (Hedging). We also want to thank the Board for granting our request to provide the additional 30 days to fully study the impact of the interpretation of the definition of amortized cost as it relates to accrued interest on loans and debt securities. The ACLI substantially supports the FASB’s proposed changes in the exposure draft (“ED”) related to investments; however, we recommend an approach to Issue 1A (Accrued Interest) that would not disrupt existing presentation and disclosure requirements and practices for loans and debt securities. Our most significant concern is that the ED does not consider accrued interest for available-for-sale debt securities (“AFS debt securities”) and the operational and reporting impacts if it were included in the definition of amortized cost. We believe the ED’s interpretation to change the fundamental understanding of amortized cost, which impacts balance sheet presentation and disclosures for loans and debt securities, requires a thorough evaluation. The remainder of this letter addresses Issue 1A (Accrued Interest).

¹ The American Council of Life Insurers (ACLI) advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers’ financial and retirement security. 90 million American families depend on our members for life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, dental and vision and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers’ products for peace of mind. ACLI members represent 95 percent of industry assets in the United States. Learn more at www.acli.com.

AFS Debt Securities

The ED would require accrued interest to be presented on the balance sheet and in disclosures within AFS debt securities (i.e., reported with the related investment balance) because the ED interprets amortized cost to include accrued interest. To maintain consistent reporting for loans, held-to-maturity (“HTM”) debt securities and AFS debt securities, it is important that any solution to the issue being addressed in Issue 1A be appropriate for each of these financial assets. We observe that the FASB proposed that accrued interest be included in the reported investment balances because it is part of the collectable amount that should be reduced by the allowance for credit losses (BC 12). As noted in BC 10-16 of the ED, preparers have identified that including accrued interest in the definition of amortized cost has significant operational and reporting implications, and the ED proposes a series of accounting policy elections to separately report accrued interest and any related allowance and charge-offs. For AFS debt securities, disclosures require amortized cost, fair value, unrealized gains and losses, and aging of unrealized gains and losses where reporting practices have excluded accrued interest from both amortized cost and fair value. To address our most significant concern, at a minimum the accounting policy elections included in Issue 1A should be extended to AFS debt securities where appropriate to mitigate significant operational and reporting implications. However, we recommend a simpler solution that would not impact balance sheet presentation and existing practices. We do not believe any perceived benefits of explicitly including accrued interest in the definition of amortized cost are cost justified.

Additional Considerations

The reporting framework in current U.S. GAAP for loans and debt securities is an integrated model that has been in existence for several years and has provided investors transparency into the amount of invested assets separate from current accrued investment income on those same assets. Today’s framework reports loans and debt securities in the Investments section of the balance sheet. ASC 310-10-35-47, unchanged by the ED, provides: “Loans and trade receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff shall be reported in the balance sheet at outstanding principal balance adjusted for any charge-offs, the allowance for credit losses, any deferred fees or costs on originated loans, and any unamortized premiums or discounts on purchased loans.” We note that accrued interest is not included in this definition. Consistent with Article 7-03 of SEC Regulation S-X, accrued investment income is presented separately from investments. For most loans and debt securities, interest coupon payments that are accrued are presented outside of amortized cost. Debt security market pricing conventions that determine fair value are generally expressed as a percent of par and therefore exclude accrued interest. Accrued interest receivable is collectible in the near term, typically within 6 months, and has a fair value that approximates carrying value. Therefore, it is also intuitive that the accrued interest receivable would be presented separately for most assets due to its short-term nature; presenting it separately from the related asset has informational value as to liquidity.

ACLI Recommendation

The ACLI recommends that the Board acknowledge that the definition of amortized cost is flexible as written in ASU 2016-13 and does not specify whether accrued interest is included or excluded by the words “adjusted for applicable accrued interest”, and provide a technical correction to clarify that accrued interest may or may not be included within the amortized cost of a loan or debt security but should be assessed for credit losses in the same manner as the related investment (i.e., by applying either ASC 326-20 or 326-30)². This language would work appropriately for both loans and HTM debt securities carried at amortized cost as well as AFS debt securities carried at fair value with unrealized gains or losses based on amortized cost. Additionally, the ACLI supports: (1) clarifying that an entity’s

² An alternative approach is to modify the definition and remove the reference to “adjusted for applicable accrued interest” while also clarifying that accrued interest must be assessed for credit losses in the same manner as the related investment.

charge-offs of accrued interest may be recorded as reversal of interest income with a corresponding reversal of an allowance against the accrued interest or directly charged off; and, (2) providing an accounting policy election not to measure an allowance for credit losses on accrued interest receivable amounts if an entity writes off the uncollectible accrued interest. If the FASB chooses not to follow this simplified approach, then as noted above we believe the Board must, at a minimum, extend the accounting policy elections included in Issue 1A to AFS debt securities where appropriate.

We appreciate the FASB considering our views on this matter. Please contact me if you have any questions or comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "M Monahan".

Mike Monahan
Senior Director, Accounting Policy