



Michael Monahan
Senior Director, Accounting Policy

November 27, 2019

Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Effective date for ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts (Update 2018-12)*

Dear Mr. Golden:

ACLI appreciates the opportunity to provide additional comments in response to the conversation with FASB staff and Board member, Christine Botosan, related to the Board decision at the Wednesday, October 16, 2019 meeting to delay the effective date for ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts (Update 2018-12)*.

At that meeting, the Board affirmed its previous tentative decision to change the effective date for Update 2018-12 on accounting for long-duration insurance contracts as follows:

1. For public business entities that meet the definition of an SEC filer, excluding entities eligible to be smaller reporting companies, the amendments in Update 2018-12 should be effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years.
2. For all other entities, the amendments in Update 2018-12 should be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.

In our response to the Exposure Draft to change the effective date, ACLI expressed concerns about SEC filers (as defined above) that have assumed and/or ceded reinsurance relationships (existing and potential future) with smaller reporting companies and all other entities, whether or not they produce US GAAP financial statements (collectively referred to as “counterparty”), where the counterparty is responsible for the administration and/or valuation of the underlying contracts. The additional data retention and measurement changes brought about by the ASU will create considerable cost and effort for both the SEC filer and the counterparty to comply with the amended effective dates, especially when the effective dates are different, which creates a misalignment of business and financial reporting needs for both parties involved.

Reinsurance activity is material for life insurers. Based upon NAIC statistical data, reserves held on life and annuity reinsurance assumed business at December 31, 2018 totaled more than \$463 billion and reserve credit taken on similar reinsurance ceded business totaled over \$808 billion. This is an active marketplace where life insurance companies are frequently entering into new reinsurance arrangements

and it is expected that the ASU will only serve to increase the amount of reinsurance activity in the marketplace. As such, it is important to ACLI members that the impacts of the Board's decisions on reinsurance contracts be fully considered.

While ACLI supports the Board's decision with respect to the two-tiered effective date approach for Update 2018-12, the consequences of that decision are significant, which is why we believe the Board should consider providing transition relief for certain reinsurance contracts, as detailed below.

One of the suggestions from the aforementioned FASB staff call was that ACLI should bring this topic before the AICPA Insurance Experts Panel for consideration, which we did. Their response was that this issue is not within their scope and that the issue should be taken up with FASB directly.

Further development of the issue:

One of the factors taken into account by the Board in setting different effective dates is that their smaller size translates to a lack of internal and external resources available to implement the standard. What these companies have experienced in the past is that third-party service providers are generally focused on assisting SEC filers first and then the counterparty, given the lack of resources industry-wide for such firms to assist all-sized companies at the same time. ACLI recognizes and sympathizes with this challenge and fully supports the Board's decision to provide these entities with a longer transition period. However, the consequence of this decision is that it creates a misalignment of business and financial reporting needs between entities engaged in reinsurance transactions where both parties have different effective dates.

As the Board is aware, after conducting significant industry outreach to better understand the operational challenges entities face in implementing the ASU, the guidance significantly expands the volume of data necessary to comply with the ASU, primarily a result of the retrospective application of changes in estimates and assumptions along with new disclosure requirements. Gathering and storing this data in a controlled manner will require significant time and resources. Even when the relevant systems and data are fully under the control of the entity, that effort is extensive and was one of the significant contributors to the Board's decision to extend the effective date for all entities. When the relevant systems and data are outside the control of the entity, as is the case in many reinsurance contracts, the effort and challenges are even greater, especially when the timing requirements for both parties to the contract are not aligned. For reinsurance contracts between SEC filers and the counterparty, the SEC filer may be in a position where data will be required from a counterparty that may not have begun its transition work as of the effective date of the ASU for that SEC filer. In order to rectify this discrepancy, many reinsurance contracts may need to be renegotiated such that the SEC filer would be forced to choose between terminating the reinsurance contract and agreeing to take on a disproportionate share of the counterparty's implementation expenses. In other cases, the reinsurance contract cannot be renegotiated that would likely lead to a work-around. This is an adverse outcome for all parties involved, especially the shareholders of those SEC filers.

Additionally, the difference in effective dates could negatively impact the marketplace for reinsurance as it changes the competitive landscape between reinsurers vying for blocks of business. Many SEC filers compete for reinsurance business against non-SEC filers. The environment is extremely competitive where any edge or disadvantage could mean the difference between winning and losing a deal. The difference in effective dates will create a competitive disadvantage for SEC filers, which could impair their ability to effectively deploy shareholder capital at attractive returns.

Recommendation:

In order to address this issue and avoid unnecessary disruption of the reinsurance marketplace, ACLI recommends the following transition relief:

For reinsurance contracts between SEC filers and (1) smaller reporting companies, or, (2) all other entities, where the administration and/or valuation of the business has not been transferred to or retained by the SEC filer, the effective date of the guidance would be fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, determined on a contract-by-contract basis, allowing for early adoption. For all reinsurance contracts to which this transition guidance has been applied, disclosure of the assumed and ceded reserves is required.

ACLI believes this transition relief would eliminate the issues described above in a way that avoids creating extraneous moral hazards. SEC filers do not desire to report different contracts under different accounting models unless absolutely necessary. As such, we expect that SEC filers will naturally endeavor to implement the ASU for all contracts by the earlier effective date wherever possible.

We welcome the opportunity to discuss our views and recommendations in greater detail should you have any questions.

Sincerely,



Mike Monahan
Senior Director, Accounting Policy

cc: Christine Botosan, Board member
Jay Shah, Senior Project Manager
Alex Casas, Assistant Director