ACLI
Financial Security for Life

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

Re: Proposed Accounting Standards Update 2021-002—Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on Proposed Accounting Standards Update 2021-002—Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method.

ACLI members offer certain insurance products (the "Liabilities") that expose our members to interest rate risk. More specifically, the Liabilities require the payout of periodic cash flows in the future. These periodic cash flows are fixed amounts and determined based upon the interest rate environment at the time of origination. The cash flow profile resembles those of interest payments on a fixed-rate bond.

Cash assets (i.e., bonds and mortgage loans) with maturities that align with the Liabilities' cash outflows are likely not be available at the time the insurance product is originated, due to the long tenor of the cash outflows. Therefore, the cash assets used to economically hedge the future cash flow payouts, at product origination, will mature earlier then the date when the Liabilities are settled.

A decline in the overall interest rate environment when those cash assets mature may result in the new bonds acquired not generating the amount of cash flows needed to support desired levels of profitability for the respective Liabilities.

As a result, our members use received-fixed and pay-float interest rate swaps to synthetically adjust the Liabilities fixed cash flows to a floating rate. This mitigates the effect of fluctuations in interest rates on the profitability of these Liabilities. In practice, this interest rate risk is managed on a portfolio basis, not by individual policies.

These Liabilities can be terminated prior to the date or event that is defined as the scheduled maturity. For example, if a policy holder stops paying its premium then the policy is cancelled, which is referred to as lapse risk. Lapse risk is one form of insurance risk that is akin to prepayment risk for a financial asset.

Due to the similarities lapse and other insurance risks have with prepayment risk, obtaining hedge accounting for policies which contain these prepayment-like risks can be challenging for the same reasons that were raised with hedging prepayable assets, prior to the creation of the portfolio layer method. Thus, a significant portion of the interest rate swaps used to mitigate this interest rate risk do not achieve hedge accounting.

If the portfolio layer method was expanded to include insurance liabilities, our members would have the opportunity to apply hedge accounting to a significant portion of these interest rate swaps. To allow these Liabilities to be designated as the hedged item under the portfolio layer method, we kindly ask that the FASB consider expanding the scope of portfolio layer method to prepayable financial assets **and prepayable financial liabilities**.

The definition of the bolded terms, in the paragraph above, within the Master Glossary to the Accounting Standards Codification and the way in which these Liabilities comply with the respective definitions is as follows:

	Master Glossary Definition	**How Definition Met for the Insurance Products**
Prepayable	Able to be settled by either party before its scheduled maturity	Lapse and other similar risks cause the Liabilities to be settled prior to the date or event that is defined as scheduled maturity, resulting in these types of products being considered prepayable.
Financial Liability	A contract that imposes on one entity an obligation to do either of the following: • Deliver cash or another financial instrument to a second entity • Exchange other financial instruments on potentially unfavorable terms with the second entity	These Liabilities contractually require our members to make cash payments to policy holders at future dates. As a result, ACLI believes the Liabilities are considered financial liabilities.

We appreciate the opportunity to provide our views on the Board's proposal and respectfully request that the Board consider our comments. We would be happy to engage in further discussion or provide clarification on this, or any other matter at your request. Please do not hesitate to contact me if you have further questions.

Sincerely,

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Mike Monahan
Senior Director, Accounting Policy

Cc: Hillary H. Salo, Technical Director