



Michael Monahan
Director, Accounting Policy
(202) 624-2324 t (202) 572-4746 f
mikemonahan@accli.com



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LETTER OF COMMENT NO. 6

Mr. Robert Herz
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference 1550-100; Preliminary Views, *Financial Instruments with Characteristics of Equity*

Dear Mr. Herz:

The American Council of Life Insurers (ACLI) is pleased to submit the following comments regarding the Preliminary Views, *Financial Instruments with Characteristics of Equity* (the PV). The ACLI represents three hundred fifty-three (353) member companies operating in the United States, of which three hundred forty-five (345) are legal reserve life insurance companies, and eight (8) are fraternal benefit societies. These 353 member companies account for 93 percent of total assets, 93 percent of the life insurance premiums, and 94 percent of annuity considerations in the United States.

We appreciate the Board's recognition of the complexities within the accounting framework that exists today for financial instruments with characteristics of liabilities and equity. The complex, numerous, and predominately rules-based accounting standards which address the accounting for liabilities and equity today have led to diversity in practice and obscured the line drawn between the two when attempting to apply the definitions. We believe that the current practice issues associated with the accounting for instruments with liabilities and equity characteristics deserve the attention and focus of the FASB, and we agree that finding a solution to these issues should revolve around simplifying the accounting and developing a consistent, principles-based classification framework.

Therefore, for the reasons cited above, the ACLI supports the Basic Ownership Approach (BOA) structure for its simplified and less complex approach to determining what may be classified as equity within the financial statements. While we believe that the principles of the BOA will reduce accounting complexity and promote consistency in application, we remain concerned about the interaction of this guidance with other existing standards and the need for the financial statement user community to adjust their expectations of financial reporting as a result of this guidance. We therefore believe that the FASB should address certain issues during the exposure draft period, as detailed below:

Variable Interest Entity Considerations

The determination of whether an entity is a variable interest entity subject to the provisions of FIN 46R, *Variable Interest Entities*, relies upon the concept of the entity's equity and the sufficiency of that equity to sustain ongoing operations of the entity. Under the BOA structure, the amount that an entity will classify as equity in its balance sheet will be less than under previous guidance. For example, a limited partnership interest which is not the most residual will be reclassified as a liability, thereby reducing the amount of equity in the partnership's balance sheet. As a result, more entities could be considered variable interest entities under FIN 46R,

although the underlying economics of the entity have remained constant. While the PV does address the identification of basic ownership instruments of a consolidated variable interest entity (paragraph 29), Appendix F in the PV does not specifically state FIN 46R as accounting literature significantly affected by the new guidance. We do not believe it is the objective of the FASB to create additional accounting complexities in other existing standards such as FIN 46R through the application of the BOA structure; therefore, we believe that this issue should be specifically addressed by the FASB in its exposure draft due process.

Treatment of Minority Interests

We also believe that the FASB will need to specifically address the interaction of the guidance in the PV with the recently issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). Effective 1/01/09 for many companies, FAS 160 changes the reporting of minority interest (renamed 'noncontrolling interest' per FAS 160) on companies' financial statements by requiring it to be a separate component of equity. The values of noncontrolling interests obtained in a business combination and through a step acquisition are reported at fair value. The guidance in this PV would yet again significantly change the accounting for noncontrolling interests, as many noncontrolling interests would not be considered equity under the new definition. We believe that this inconsistency amongst new accounting standards deserves additional and specific attention from the FASB during the exposure draft period.

Transition Period

The financial statement changes caused by the BOA structure proposed by the FASB will create many implications for companies that are required to comply with certain debt covenants. We believe that the FASB should consider a longer transition period for the changes proposed in this guidance to give companies the adequate amount of time to address compliance issues with their creditors, investors, and users of their financial statements. It will be a significant effort for companies to educate these stakeholders on the changes made to their financial statements and to negotiate changes to debt covenants and other financial performance indicators to reflect the fact that this PV does not change the underlying economic reality of the company.

In conclusion, we believe that the simplified, principles-based approach of the FASB's proposed BOA structure represents a needed improvement to the financial statement reporting framework that exists today. We recognize, however, that there will be many challenges that arise in the implementation of this standard as it interacts within the current, often rules-based accounting environment. As such, we recommend that the FASB address as many of these implementation concerns as possible in its exposure draft due process. We appreciate the opportunity to respond to the Board with these comments and are available to answer any questions that the Board or FASB Staff may raise.

Sincerely,



Michael M. Monahan, CLU, ChFC, FLMI
Director, Accounting Policy