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LETTER OF COMMENT NO. 43

August 24, 2006

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Re: File Reference No. 1325-100

Dear Technical Director:

The American Council of Life Insurers (ACLI) would like to offer our response to the FASB's invitation to comment on *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting*, herein referred to as the "ITC". The ACLI is the nation's largest life insurance trade association, representing 377 legal reserve life insurance companies operating in the United States. Our membership accounts for 91 percent of the life insurance industry's total assets in the U.S., and it includes the overwhelming majority of life reinsurance purchasers in the nation and every professional life reinsurer in North America.

The ITC reflects the Board's concern about a possible lack of transparency in the financial statements relating to the depiction of insurance risk associated with contracts that include terms or features that significantly limit the actual amount of risk transferred (e.g., finite risk contract). In general, the ACLI has significant concerns regarding the far-reaching implications of the proposed project. Aside from the practicability concerns of implementing a bifurcation standard for insurance contracts as discussed below, we do not believe that this information would be useful to financial statement users. We are not aware of stakeholders looking to receive this level of analysis from any of our member companies. While there have been some highly publicized issues regarding finite risk reinsurance over the past two years, we do not believe that these issues should call into question the entire accounting model for insurance accounting by insurance companies, reinsurers and insured.

Further, we do not believe that most owners of insurance contracts have the resources to perform the assessment or to calculate the components necessary to bifurcate insurance contracts. Insurance companies also will struggle to perform these calculations on ceded business, as it requires some level of knowledge regarding the assuming company's pricing model.

Therefore, in lieu of pursuing a broad change that in our opinion is neither necessary nor desirable, we believe the Board should redirect its efforts into preparing an interpretation of FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (FAS 113), to address only the issues relating to finite risk reinsurance contracts. We believe that interpretation should not result in those finite risk reinsurance contracts being bifurcated, but rather evaluated as meeting the conditions for risk transfer or not.

Our comments in response to the specific questions in the ITC are as follows:

Issue 1. Does the IFRS definition of insurance contract identify insurance contracts and sufficiently distinguish those contracts from other financial contracts? Does the GAAP definition of insurance risk identify and separate that risk from other risks such as financial risk? Do the descriptions of finite insurance and reinsurance contracts, including the risk-limiting features, identify those contracts? How could the definitions and descriptions be improved?

We believe that there is a clear understanding of the definition of insurance contracts as it relates to life insurance. While we have no specific objections to the IFRS definition, we do not see a need to provide further guidance at this time. We believe that the issue that the Board should address is when a finite reinsurance contract exists and how it should be assessed within the existing definition of insurance as defined in FAS 113.

Issue 2. Can the Statement 113 risk transfer guidance for reinsurance contracts be applied by corporate policyholders and insurers for determining whether an insurance contract transfers significant insurance risk? If not, how can the Statement 113 guidance be modified or clarified to apply to insurance contracts?

We believe that FAS 113 is sufficient in defining risk transfer for reinsurance contracts for life companies. While we do not support an expansion of the scope of FAS 113 into defining risk transfer for insurance contracts, we do believe that the principle-based approach of FAS 113 permits it to be used in such capacity. We do not support a modification of FAS 113. The Board may need to provide further guidance, though, on how to apply FAS 113 to finite risk reinsurance contracts. In doing so, the Board can address the adequacy of certain rules of thumb, such as the 10/10 rule, within the application of FAS 113. We would not expect such an interpretation to have a significant effect on the life insurance industry, as finite risk reinsurance arrangements are fairly uncommon.

Issue 3. Does classifying an entire contract as insurance or bifurcating that contract into insurance and deposit components provide more understandable and decision-useful information? Which qualitative characteristics most influence your decision? Which approach more faithfully represents the economic substance of the contract? Why?

The ITC references three criteria in assessing the usefulness in answering this question: Understandability; Relevance; and Reliability. We will attempt to address each in our response.

Understandability: We believe that bifurcation of insurance and reinsurance contracts as defined in the ITC could only be understandable to extremely knowledgeable users of financial statements, and then only if accompanied by extensive additional disclosure. Disclosure would need to address how the company determined which contracts were bifurcated; what the significant assumptions were for the contracts that were bifurcated; and what the impact of bifurcation was on the accompanying financial statements. Many of these assumptions would necessarily be based on subjective judgments of how to split product features that are interrelated. We believe that the ultimate level of explanation necessary to make bifurcation understandable would result in added complexity and confusion for both financial statement preparers and users at an unnecessary cost to financial statement preparers. When this level of disclosure becomes necessary to comprehend the accounting, we believe that it does not meet the requirement of understandability.

Relevance: We are unable to see how a bifurcation model will produce more relevant information for financial statement users. We believe that the introduction of this level of complexity and the over-reliance on subjective management assumptions in determining when and how contracts are bifurcated will make the financial statements less relevant. Management has not found such bifurcation to be necessary or useful in managing insurance products, and such splits would not be consistent with the way most insurance products are priced, analyzed financially or perceived by customers. We believe that had investors viewed this information to be relevant, our member companies would have already received information requests for this level of data, which has not occurred to date.

Reliability: The vast majority of insurance contracts are neither priced nor valued at the contract level. Determinations of values necessary to bifurcate a contract cannot be reasonably, consistently or accurately performed on a contract-by-contract basis, or separately by contract feature in view of the interrelationships that generally exist between such features. In attempting to apply these assumptions at that level, there will be additional subjectivity added to financial statements, as performance assumptions on an individual contract do not come to fruition. This subjectivity is inevitable as contractholders generally would not have the expertise to make these calculations, may not be privy to the assumptions that went into the determination of pricing and may not have enough influence to reach a critical mass within an individual contract. Changes in the financial statements due to economic changes can be explained within the notes to the financial statements and perhaps understood by sophisticated users. However, when subjectivity results in changes in the financial statements due to inefficiencies of the pricing models to bifurcate insurance contracts since this is neither how the contract was priced, marketed or sold, it will be a difficult task for even the most sophisticated user to understand.

For all of these reasons, we believe bifurcation will not improve financial reporting. The significant cost of bifurcation reporting will be of no benefit to financial statement users. We believe that the current accounting model, as provided in FAS 113, is adequate and has not resulted in systematic proliferation of and deterioration in the quality of financial reporting. Reporting issues have been limited to certain finite risk circumstances and resulted from individual subjective interpretations of FAS 113, and those interpretations have not been widespread. The restatements that have occurred that are the impetus to this ITC should not be viewed as an indictment to the existing accounting model. Those restatements have largely dealt with interpretation questions with existing guidance. We believe that an interpretation of FAS 113 can be brought forward to simply address these specific issues. This would provide the greatest benefit to financial statement users at the least cost. Additionally, the key component of life insurance and annuity products is the insurance protection that is part of the whole bundle of rights provided by the contracts. Only an insurance company can provide such coverage. The insurance element of these contracts cannot be purchased separately in the market place. The premium paid by the policyholder reflects the whole bundle of rights purchased, not just the sum of charges for the individual rights.

Issue 4. The flowchart suggests a sequence for analyzing contracts that integrates current insurance accounting guidance with a hypothetical bifurcation analysis. Do you believe that the sequencing and integration are appropriate? What changes would you propose?

We believe that the flowchart provides for an appropriate sequencing and integration of the bifurcation analysis if required. As stated throughout this letter, we believe that the majority of contracts can be

defined as insurance or deposit within the existing framework of FAS 113 and the further steps provided in the flowchart of requiring some contracts to be bifurcated is not necessary.

Issue 5. Do you agree with the characteristics identified for contracts that do or do not unequivocally transfer significant insurance risk? If not, why not? Should other characteristics be added? Are the examples in Appendix B representative of the discussion in paragraphs 57-59?

Appendix B does not include any life insurance examples. Unless life insurance is excluded from the scope of the paper, the appendix should include life insurance examples. It is generally clear that life insurance contracts unequivocally transfer insurance risk, although many do include features that might be considered risk-limiting, and some might be considered to have more than negligible non-insurance features.

Issue 6. Do you think the characteristics described in paragraph 58 for unequivocal insurance contracts are an improvement over the exemption from cash flow testing in paragraph 11 of Statement 113?

We do not support a rules-based approach to a determination of contracts that do or do not unequivocally transfer significant risk. We believe that the principles-based approach of FAS 113 is a preferred method to the determination of risk transfer than the one provided for in paragraph 58 of the ITC. There is a substantial risk that the rules-based language in paragraph 58 will scope in a much larger population of contracts than is the current intention of the Board.

Issue 7. Do you prefer Approach A or Approach B for identifying contracts subject to bifurcation? Why? Do you believe that another approach would be superior? If so, how would you describe that approach? Would your preferred approach be operational? Would it make financial statements more decision useful?

Issue 8. Should the criteria for bifurcation be different for insurance contracts and reinsurance contracts? Why? If yes, what differences would you suggest?

Issue 9. Which of the methods identified in this Invitation to Comment for bifurcating insurance and reinsurance contracts do you believe has the most conceptual merit? Please explain. Please describe any additional bifurcation methods that you believe should be considered. Would corporate policyholders encounter unique implementation problems in applying any of the methods discussed in this Invitation to Comment?

Issue 10. Would data availability limit the development of any of the bifurcation methods discussed in this Invitation to Comment? To what extent are the models that would form the basis for these methods used to underwrite and price products? Would data availability (or lack thereof) affect only certain insurance forms, products, or lines of business? If so, which ones and why?

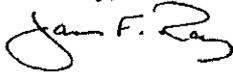
Because we believe that bifurcation is not the appropriate course of action for the Board to pursue, we have not responded to each of these issues. We have reviewed the methods of bifurcation that the Board has brought forward and do not believe that any of the methods would overcome the significant concerns about bifurcation expressed throughout this letter.

Issue 11. In view of the IASB's project on insurance contracts, should the FASB be considering bifurcation of insurance contracts based on transfer of insurance risk?

While we have concerns with some of the early stage work in the IASB insurance contracts project, we recognize that it is still a work in progress. We believe that, given the Board's intention to pursue a potential joint project on accounting for insurance contracts with the IASB, it would be most appropriate to observe the deliberations and analyze the conclusions reached by the IASB prior to the issuance of a major change in accounting such as bifurcation.

Thank you for this opportunity to express our views, concerns, and recommendations on this developing accounting guidance. Should you have any questions or wish to discuss our concerns in greater detail, please feel free to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "James F. Renz". The signature is written in a cursive style with a large initial "J" and a stylized "R".

James F. Renz
Director, Accounting Policy