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Re: File Reference No. 1890-100

Aflac welcomes the opportunity to share with you our views regarding the Discussion Paper: Effective Dates and Transition Methods. Below we offer our general comments followed by our responses to the specific questions.

Aflac sells supplemental insurance products in the US and Japan and is the world's leading underwriter of individually issued policies marketed at worksites.

## **General Comments**

We support the Boards' decision to gather stakeholder input when developing and improving financial accounting standards. Discussion papers and exposure drafts allow stakeholders to express their views and allow the Boards to see how new standards would affect the financial reporting community. However, many of the questions raised in this discussion paper are difficult to answer considering all of the projects that are the subject of this paper are still in the developmental stage. We have answered all questions using information that has been released in staff drafts, discussion papers and exposure drafts. Accordingly, our responses to the questions would likely change if the final standards are different from the tentative decisions the Boards have made to date.

## Convergence

We strongly support the FASB's commitment towards convergence with International Financial Reporting Standards. The Boards recently decided to re-prioritize the joint projects and have set a

timetable to finish major projects by the end of June 2011. Among those projects are financial instruments, leases and revenue recognition. There were an overwhelming number of comment letters sent in response to the exposure drafts for the projects listed above. Many concerns were raised by stakeholders that need to be addressed by the Boards. In the case of the financial instruments project, the Boards have taken different paths and have a number of differences to resolve. Considering the number of issues raised in these letters and differences in approach, we believe the timetable to complete these projects by the end of June 2011 is very aggressive. We encourage the Boards to focus on the quality of the new financial accounting standards rather than a timeline.

#### *Implementation*

It is difficult at this stage in the standards development process to provide a detailed implementation timetable. If the final standard is different from the information published in the relative staff draft, discussion paper or exposure draft then the timetable may be different. At any pace, the implementation of seven new standards (those that are the subject of this paper) will require considerable effort and resources; and, entities will need to be given a sufficient period of time to allow for proper and accurate implementation. The amount of time needed is directly correlated to the transition methods required by the new standards. Retrospective transition is often most desirable because it ensures consistency within one's financial statements. However, there will be instances when retrospective adoption is too costly or impractical. Where appropriate, standards should be applied retrospectively and the amount of time given for implementation should be extended.

In addition to the time needed to implement these standards, significant resources will need to be devoted to effectively implement the standards. All standards will require the use of personnel who are dedicated to implementation. Secondly, most of the standards will require the education and training of management, employees and users. Finally, many of the major projects will require systems to be changed and or/updated in order for the financial statements to comply with the new rules.

The Boards have suggested two implementation methods entities could use to implement the standards, the single-date approach and the sequential approach. The costs listed above will be incurred regardless of which method is chosen. However, under the single-date approach the costs would be incurred all at once, while the sequential approach allows the costs to be spread over time. In addition to cost, the risk of implementation is also a factor in choosing the preferred method. The single-date approach has much more risk associated with it. The need to focus on the broader implementation plan may hinder an entity's ability to focus on the details of the individual standards and could cause an entity to overlook certain matters and/or lead to implementation errors. The sequential approach, although it increases the cost, lengthens the implementation process, and results in financial statements changing from year to year, allows entities to focus on the details of each individual standard. It would also allow time for training and education. This approach carries the least risk of a mistake being made and allows for a more knowledgeable management and staff. Improved financial reporting is the ultimate goal of the new standards and we believe that the sequentialapproach to implementation best achieves this goal. However, should the Board elect the sequential approach, we believe that the transition guidance should consider whether any of the standards have dependencies that will require reconsideration of certain elections at the transition of a new standard.

For example, depending on the outcome of the financial instruments and insurance contracts standards, companies might reconsider their elections related to the fair value option for financial instruments upon transition to the insurance contracts standard. Under the sequential approach, companies should have the ability to reconsider such elections at the later transition date when these types of dependencies exist.

## **Response to Questions for Respondents**

## **Background Information about Respondents**

**Question 1:** Please describe the entity (or the individual) responding to this Discussion paper. For example:

(a) Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.

Response: Aflac is a preparer of financial statements and prepares financial information in accordance with U.S. GAAP. Since over 75% of Aflac's business is in Japan, Aflac will be required to report on an IFRS basis for local regulatory reporting as early as 2015.

(b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.

Response: Aflac sells supplemental insurance products in the US and Japan and is the world's leading underwriter of individually issued policies marketed at worksites. Projected revenues for the 2010 fiscal year are \$20.2 billion. Aflac employs approximately 8,000 employees located in the U.S. and Japan. Aflac has securities registered on the New York Stock Exchange and the Tokyo Stock Exchange.

(e) Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).

Response:

<u>Standard</u>	<u>lmpact</u>	Factors Driving Impact	Time Needed to Implement (Individually)
Financial Instruments	High	Our business model focuses on supporting our policy liabilities with long-duration high quality investments. As a result, the majority of the assets on our balance sheet are investments. As a result, this standard could significantly change the face of our balance sheet and require new disclosures.  Additionally, our investment systems would require significant modification to meet the demands of the proposed guidance.	2 years
Revenue Recognition	Low	The majority of our revenues are scoped out of this proposed standard.	Not Applicable
Leases	Medium	The majority of the impact will be driven by systems changes that will need to be implemented as a result of the standard. Additionally, many lease contracts will need to be reviewed and analyzed in great detail.	1 year
Financial Statement Presentation	High	We believe this standard will be very costly to implement. Specifically, resources will need to be spent on systems changes as well as training for employees involved in the financial reporting process, management and possibly in other areas of the business.	Not Applicable
Financial Instruments with Characteristics of Equity	Low	Based on the current information provided on the project, we do not expect this project to affect our balance sheet.	
Insurance Contracts	High	The proposed guidance will completely change the way insurance contracts are measured. The new standard creates earnings volatility, changes the face of the income statement and balance sheet and requires a significant amount of new	Not Applicable

		disclosures. Additionally, the systems effort required will be extremely high and complicated.	
Comprehensive Income	Low	We currently prepare a separate statement of other comprehensive income, therefore we will only need to combine this statement with the income statement. Therefore, we do not see this standard to be time consuming or costly to implement.	1 quarter

# <u>Issue 1: Preparing for and Transitioning to the New Requirements</u>

**Question 2:** Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

(a) How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each new standard?

Response: Please refer to our response to question 1(e).

**(b)** What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

### Response:

Type of Cost	Significance	<u>Primary Drivers</u>
Systems	High	Systems will need to be changed and/or updated to adapt to the new standards.  For example:  The insurance contracts standard calls for disclosures of numbers that our system currently cannot calculate.  The financial instruments standard proposes that the effective interest rate may need to be increased or decreased based on expected cash flows, but may never be less than the original effective rate. As a result, the system would need to be able to maintain both the original and current effective interest rate.

Education and Training	High	Every new standard that is released requires the education and training of individuals within the organization and also outside users. However, the standards that are the focus of this paper require significant changes and, as a result, will involve an extensive amount of education and training.  For example, the insurance contracts standard fundamentally changes the way insurance contract liabilities are presented and calculated. Additionally, the changes are very complex and difficult to understand.	
Personnel High		Whether implemented all at a single date or sequentially, the volume of accounting changes will require increased man hours. However, in order to simultaneously meet current financial reporting requirements while implementing new standards under the single-date approach, additional staff and/or consultants would need to be hired.	

**Question 3:** Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Response: It is likely that there will be conflicts with other regulatory requirements considering the magnitude of changes being made to financial reporting. As an insurance company we must comply with statutory accounting principles prescribed by the National Association of Insurance Commissioners in addition to GAAP. The proposed changes to insurance contracts accounting are significant, and it is not certain that the statutory accounting rules will adopt the exact same changes. Therefore, it is possible that there will be some differences between the two sets of rules and thus the requirements of the accounting systems.

It is likely that auditing standards will need to be changed since many of the new standards are proposing forward-looking information be included in the footnotes. Current auditing standards do not address such forward-looking information since it has historically been excluded from the footnotes.

**Question 4:** In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

Response: We agree with the proposed transition methods for financial instruments, other comprehensive income, leases and financial statement presentation. We believe applying an accounting standard retrospectively improves comparability within an entity's financial statements, and as a general rule prefer this method over others.

### Issue 2: Effective Dates for the New Requirements and Early Adoption

**Question 5:** In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).

Response: As discussed in our general comments, we prefer the sequential approach. Implementing the standards using the single date approach would be very costly and there would be a lot of risk involved with the implementation. Additionally, implementing all of the standards at once may cause specific details of individual standards to be over looked because of the focus on the overall implementation plan. If the new standards are implemented sequentially entities will be able to analyze the effects of each new standard with greater precision and detail. Additionally, the costs of implementation would be spread out over a longer period instead of being incurred all at once. However, the sequential approach lengthens the implementation process and could cost more over the long run if rework is required or multiple changes to systems and software are required. Also, financial statements would be changing from year to year depending on when the different standards are implemented. The lack of consistency from year to year may confuse users of the financial statements.

We believe the single date approach poses the greatest risk of making a mistake in the implementation process. The sequential approach allows entities to take a more detailed look at each standard and therefore is less risky. The ultimate goal of the implementation process is improved financial reporting. We believe the sequential approach will result in higher quality financial reporting than the single date approach and therefore prefer this approach. However, as mentioned above, we believe that the transition guidance should consider whether any of the standards have dependencies that will require reconsideration of certain elections at the transition of a new standard.

(b) Under a single date approach, what should the mandatory effective date be and why?

Response: We do not believe the single date approach should be used. It is difficult to estimate at this point how long an entity would need to prepare and implement all the new standards at once, but a considerable amount of time would need to be given. If all of the projects were to be implemented at once, then the amount of time to complete each individual project are likely to be longer than the amounts included in our response to question 1(e) since companies would need to increase and employ risk mitigation strategies and balance dependencies between standards.

(c) Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such factors as the impact of interdependencies among the new standards.

Response: The major projects that are further along in development such as financial instruments, revenue recognition, leases and insurance contracts should be given different effective dates. The insurance contracts standard is more than likely going to significantly impact insurance companies. All other entities will likely be affected by the revenue recognition standard. The other standards will likely have a more broad impact on all entities. As a result, we suggest assigning the same effective date for the revenue recognition and insurance contracts standards, followed by, or preceded by, different effective dates for the leases and financial instruments standard.

<u>Proiect</u>	Effective Date
Comprehensive Income	January 2012
Leases	January 2013
Financial Instruments	January 2014
Revenue Recognition, Insurance Contracts	January 2015

The above is an estimate of an implementation timetable we believe would work for our company. It is possible that this timetable would not work for another entity. Further, this timetable could change dependent upon the timing of the issuance of the final standards and if there are any differences in the final versions compared to the exposure drafts.

(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

Response: No

**Question 6:** Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Response: The Board should give companies the option of early adoption. However, if an entity chooses early adoption for financial instruments, the insurance contracts standard must also be early adopted, vice versa. However, the consequence of allowing early adoption is lack of comparability.

**Question 7:** For which standards, if any, should the Board provide particular types of entities a delayed effective date? How long should such a delay be and to which entities should it apply? What would be the primary advantages and disadvantages of the delay to each class of stakeholders (financial statement preparers, financial statement users, and auditors)? Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?

Response: Many of the new standards, including financial instruments, insurance contracts and revenue recognition, are fundamental changes to current accounting guidance. As a result, the implementation effort will be much greater. Larger companies will generally have the resources available to implement the standards within the timeline prescribed. However, implementation will likely cause a greater strain on smaller companies due to the lower availability of resources. At the expense of comparability, the Board should consider prescribing a delayed effective date for smaller companies for the standards listed above.

## **Issue 3: International Convergence Considerations**

**Question 8:** Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

Response: Yes. The purpose of convergence between IFRS and GAAP is to improve the comparability of financial information globally, and therefore assigning different effective dates would not achieve this objective.

#### Issue 4: Effects of Possible Changes to Standards Setting for Private Entities

**Question 9:** How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

Response: The evaluation does not significantly affect our views on the questions raised in this paper. However, we do believe that regardless of size and private vs. public status, accounting standards should generally be consistent across companies.

Sincerely,

June P. Howard

Senior Vice President and Chief Accounting Officer