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Technical Director  
File Reference No. 2012-200  
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401 Merritt 7  
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Aflac, Inc. (Aflac) welcomes the opportunity to share with you our views regarding the Proposed Accounting Standards Update Financial Instruments (Topic 825), Disclosures about Liquidity Risk and Interest Rate Risk. The goal of the Board to provide stakeholders of financial reports with additional useful information is acknowledged and appreciated by Aflac.

Aflac Incorporated is a general business holding company and acts as a management company, overseeing the operations of its subsidiaries by providing management services and making capital available. Its principal business is supplemental health and life insurance, which is marketed and administered through its subsidiary, American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), referred to as Aflac Group Insurance. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

Aflac offers voluntary insurance policies in Japan and the United States that provide a layer of financial protection against income and asset loss. We continue to diversify our product offerings in both Japan and the United States. Aflac Japan sells voluntary supplemental insurance products, including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans and annuities. Aflac U.S. sells voluntary supplemental insurance products including loss-of-income products (life and short-term disability plans) and products designed to protect individuals from depletion of assets (hospital indemnity, fixed-benefit dental, vision care, accident, cancer, critical illness/ critical care, and hospital intensive care plans).

Our general comments regarding the matters addressed in the Exposure Draft are as follows:

#### **Liquidity Risk and Interest Rate Risk Disclosures**

**Ref: 825-10-50-23A**

This section defines the term financial institution and includes entities or reportable segments that “provide insurance”. Providing insurance is a broadly used term in the practice, and we suggest adding clarification to this paragraph that defines providing insurance taking into consideration the depth, varying products and entities within the insurance industry. Additionally, insurance companies, compared to other financial organizations as defined by this proposal, are exposed to different risks and manage these risks in different ways that may not necessarily align with the banking institution focus of this proposal. For example, our risk management model for liquidity and interest rate risk includes significant management assumptions, taking into consideration our foreign operations and product mix; and in many instances these unique characteristics would not be comparative to other entities or banking institutions. Additionally, a tabular presentation may not fully capture the forward significance of the assumptions and considerations.

**Ref: 825-10-50-23B**

This section applies the disclosures to reportable segments. We suggest adding clarification to this paragraph that defines reportable segments taking into consideration the depth, varying products and entities within the insurance industry.

#### **Liquidity Risk Disclosures**

**Ref: 825-10-50-23D, 825-10-50-23H**

These sections apply the liquidity risk disclosures to annual and interim reporting periods for public entities, while requiring annual disclosures only for nonpublic entities. While these disclosures are designed to improve the financial reporting framework, we suggest the frequency of disclosure be the same for both public and nonpublic entities, as the increase operational costs would create undue hardship and penalty to the financial reporting process for public entities on interim reporting periods.

#### **Liquidity Gap Maturity Analysis**

**Ref: 825-10-50-23E**

This section requires tabular presentation of risks by classification and maturity. While we understand the desire to create a simple, consistent disclosure that appears quantified, we feel that this requirement is too prescriptive and does not take into consideration the unique attributes of the insurance industry and our products.

Additionally, the proposed disclosures, which are applicable to Aflac, may not contribute to stakeholders' understanding of liquidity risk of entities in the insurance industry. The disclosures may not clearly illustrate Aflac's exposure to liquidity risk, and the proposed presentation could lead stakeholders to incorrect assumptions and decisions regarding that risk. In theory, information presented in the tables should enable stakeholders to more easily compare liquidity risk among companies, and the information presented in the qualitative descriptions should supplement the tables and contribute to stakeholders' understanding. Realistically, for the descriptions to be most effective, they would have to describe why the information in the tables cannot stand alone, and cannot be used as a basis of comparison to the tables of other insurance entities that could have a very different product mix.

Within the insurance industry, the methodologies for developing assumptions and estimates can differ greatly. Analysis of similar data can lead reasonable decision makers of different organizations to differing conclusions regarding the values and maturities of assets and liabilities. This can diminish comparability of liquidity risk among insurance companies.

The proposed tabular disclosures require reporting of data of many reporting periods in the future, but the qualitative disclosures may only address actions taken to mitigate risk in the current reporting period. The very nature of reporting future periods requires that assumptions, estimations, and projections be made; yet the same sort of foresight cannot be applied to future cash inflows, investments, or activities to mitigate risk. This can portray an entity as being unprepared to face future challenges.

Critical accounting estimates used in the preparation of the financial statements of Aflac involve various assumptions developed from management's analyses and judgments. The estimates determine the reported value of the majority of our assets and liabilities. Assumptions are adjusted as actual experience emerges. The impact of Aflac management's assumptions on estimates would not be reflected in the proposed disclosures. The amount of qualitative information, which would be required to explain the assumptions and estimations used, and period-to-period changes in tabular disclosures would be voluminous. Presented with tables of figures and corresponding paragraphs of narrative, stakeholders may gravitate towards the clarity and order of the tables and consider the verbal disclosures to be supplementary information, when actually the information in the tables cannot be properly construed, or compared among entities, without careful consideration and understanding of the accompanying descriptions.

The level of an insurance company's reserves is monitored by statutory agencies using non-GAAP criteria. The required reserves are determined using complex calculations and the level of reserves is very conservative, more so than required by GAAP. Some of the proposed disclosures (with the exception of the Available Liquid Funds table) can erroneously depict an insurer as being in danger from liquidity risk or interest rate risk, when in actuality the company's reserves may be robust, and the risk of insolvency minimal. Given the unique aspects of the industry noted above, we feel that information the Board desires to provide stakeholders of Aflac's financial statements would be best presented in management's discussion and analysis or MD&A. This allows the discussion of forward-looking assumptions, under the "safe harbor" protection of the Private Securities Litigation Reform Act of 1995.

**Ref: 825-10-50-23F**

This section applies the disclosure requirements to certain off-balance-sheet commitments (for example, operating lease commitments, loan commitments, lines of credit, and other similar arrangements). While off balance sheet commitments contain certain liquidity risks, we suggest the Board consider whether these requirements are of greater substance than existing GAAP standards or whether they would create duplication and redundancy in the financial reporting framework. We also suggest that any disclosures related to liquidity risk be appended and incremental to existing disclosures of off balance sheet commitments, including those provided in MD&A, rather than additional tabular disclosures as prescribed by this proposal.

**Ref: 825-10-50-23J**

This section denotes that an institution shall provide "any additional quantitative and narrative disclosures necessary to provide users of financial statements with an understanding of its exposure to liquidity risk ". We suggest removing or adding clarification to this paragraph that defines or provides examples of potential quantitative and narrative disclosures taking into consideration the depth, varying products and entities within the insurance industry. Additionally, insurance entities vary significantly in calculating additional quantitative analyses and based on the ambiguity of this section, this area could result in diversity in practice and disclosures that create more complex financial reporting rather than consistency and ease of readability.

**Effective Date:**

The changes necessary to implement the proposed disclosures would require significant time to implement. In particular, the tabular presentation and accompanying qualitative disclosures would require a great deal of analysis to produce the information as proposed: Liquidity Gap Maturity Analysis, Repricing Gap Analysis, Interest Rate Sensitivity. We suggest an effective date that allows 12-24 months for operational implementation (i.e. for period ends on or after December 15, 2013).

Our comments regarding Questions for Respondents are as follows (note: questions not pertaining to Aflac have been omitted):

*Questions for Preparers and Auditors—Liquidity Risk*

***Question 1: For a financial institution, the proposed amendments would require a liquidity gap table that includes the expected maturities of an entity's financial assets and financial liabilities. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?***

Response: The proposed table creates an artificial mismatch of assets and liabilities, and does not accurately reflect Aflac's liquidity management. An insurance company's asset liability management is dynamic, with constantly changing inputs and modified assumptions. Significant judgment is required regarding the expected maturities of Aflac's financial assets and financial liabilities. It would not be possible to present the figures as proposed in a static table with any accuracy. The proposed disclosure does not permit the use of known cash flows such as interest and premium income, and does not reflect the entity's intention and ability to reinvest financial assets.

Operationally, the information can be compiled and presented in the proposed table. However, providing the proposed disclosures quarterly would increase the challenge of adhering to an accelerated schedule.

We feel that, using the proposed table, it is not possible for Aflac to accurately present the realistic view of liquidity risk, which the table is intended to provide, even with the inclusion of a detailed narrative. Establishing guidelines for liquidity risk discussion in the MD&A would allow the risk and management of that risk to be presented within the context of a more inclusive discussion of liquidity, management's assumptions regarding maturity of assets and liabilities, future cash inflows, and projected future liabilities.

***Question 3: The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. Expected maturity is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term expected maturity is more meaningful than the term contractual maturity in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.***

Response: Yes, the term expected maturities would be more meaningful than the term contractual maturity. However, for reasons stated in the response to Questions 1 and 6, neither term is suited for the intended result of disclosing Aflac's liquidity risk especially as it relates to our policyholder liabilities.

***Question 4: The proposed amendments would require a quantitative disclosure of an entity's available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?***

Response: Aflac does not foresee any significant operational concerns or constraints in complying with this requirement.

Because insurance companies have latitude to determine which liquid funds would qualify as "high quality" to meet the threshold required in the proposed disclosure, comparability among companies may be lessened due to differing criteria from entity to entity.

***Question 6: As a preparer, do you feel that the proposed amendments would provide sufficient information for stakeholders of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?***

Response: We feel the proposed tables regarding liquidity risk do not provide sufficient information, and in fact can be misleading to stakeholders of Aflac's financial statements.

The information included in the Liquidity Gap Maturity Analysis table does not accurately present the liquidity risk of Aflac. The comparison of assets and liabilities by estimated maturity dates at any point in time is not a true reflection of Aflac's liquidity, due to the dynamic variables used for management assumptions in determining maturities of assets and liabilities. The table also disallows the consideration of future cash flows and reinvesting, an indispensable component of future liquidity and solvency.

Information provided in tabular format should be fairly self-explanatory, not dependent on lengthy descriptions to be made useful. The Available Liquid Funds table may contribute to stakeholders' understanding without requiring a great deal of additional narrative. As previously noted, the Liquidity Gap Maturity Analysis table is not an effective tool to illustrate liquidity risk for an insurance company. We feel the disclosures would benefit from the omission of the table itself, and should instead be expanded upon in the MD&A.

Qualitative disclosures regarding significant changes related to timing and amounts of financial assets and financial liabilities from the previous reporting period to the current reporting period, reasons for the changes, and any actions taken during the current period to manage the exposure related to those changes, are already included in Aflac's MD&A to some extent. To enable the full discussion to remain intact and to include management discourse on assumptions and estimates under safe harbor rules, we suggest that the proposed liquid funds disclosures be included in the MD&A discussion of liquidity.

#### ***Questions for Preparers and Auditors—Interest Rate Risk***

***Question 13: The interest rate risk disclosures in this proposed Update would require a repricing gap table. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?***

Response: This table provides similar information to that provided in the Liquidity Gap Maturity Analysis table, with the addition of yield and duration columns. Because Aflac experiences very little interest rate repricing in either its financial assets or liabilities, incremental information provided in this table would be minimal at best. Assets and liabilities are presented at an estimated maturity date as opposed to a repricing date. Thus, this proposed disclosure has the same deficiencies as the Liquidity Gap Maturity Analysis table.

Operationally, the information can be compiled and presented in the proposed table. However, providing the proposed disclosures quarterly would increase the challenge of adhering to an accelerated schedule.

We feel that, using the proposed table, it is not possible for Aflac to accurately present the realistic view of interest rate risk even with the inclusion of a detailed narrative. Establishing guidelines for interest rate risk discussion in the MD&A allows the risk and management of that risk to be presented within the context of a more inclusive discussion of interest rate expectations, management's assumptions regarding maturity (i.e. repricing dates) of assets and liabilities, future cash inflows, and projected future liabilities.

***Question 14: The interest rate risk disclosures in this proposed Update would include a sensitivity analysis of net income and shareholders' equity. Do you foresee any significant operational concerns or constraints in determining the effect of changes in interest rates on net income and shareholders' equity? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?***

Response: Management's analysis of interest rate sensitivity uses complex revenue projections and budgets. The information provided in the proposed Interest Rate Sensitivity table is misleading without using forward-looking expectations. If the interest rate declines as prescribed in the proposal and all other data remains constant, the effect on net income would be a significant loss, and long-term liabilities would increase. In reality, actions would be taken to minimize the impact of a decline in interest rates and an increase in liabilities.

Operationally, the information can be compiled and presented in the proposed table. However, a quarterly filing requirement would increase the challenge of adhering to an accelerated schedule.

Aflac's MD&A contains a discussion of interest rate risk, and contains a table showing the sensitivity to interest rate increases of fair values of financial instruments for the reporting year. Presentation in the MD&A of the proposed disclosures allows management discussion of interest rate sensitivity and management of the risk, using reasonable forward-looking assumptions. This would provide a clearer understanding of Aflac's interest rate risk.

***Question 15: As a preparer, do you feel that the proposed amendments would provide sufficient information for stakeholders of your financial statements to understand your entity's exposure to interest rate risk? If not, what other information would better achieve this objective?***

Response: We do not believe the proposed amendments would provide sufficient information for stakeholders of Aflac's financial statements to understand Aflac's exposure to interest rate risk. We propose that guidelines be established for discussion of interest rate risk in the MD&A.

#### ***Questions for All Respondents***

***Question 20: The amendments in this proposed Update would apply to all entities. Are there any entities, such as nonpublic entities, that should not be within the scope of this proposed Update? If yes, please identify the entities and explain why.***

Response: We believe the proposed tabular disclosures in this exposure draft would provide misleading information for stakeholders of financial statements for all insurance companies. The goal of comparability among companies would not be met, although the tables might give the illusion of comparability.

***Question 21: Although the proposed amendments do not have an effective date, the Board intends to address the needs of stakeholders of financial statements for more information about liquidity risk and interest rate risk. Therefore, the Board will strive to make these proposed amendments effective on a timely basis. How much time do you think stakeholders would require to prepare for and implement the amendments in this proposed Update? Should nonpublic entities be provided with a delayed effective date? If so, how long of a delay should be permitted and why? Are there specific amendments that would require more time to implement than others? If so, please identify which ones and explain why.***

Response: The changes necessary to implement the proposed disclosures would require significant time to implement. In particular, the following three tables and accompanying qualitative disclosures would require a great deal of analysis to produce the information as proposed: Liquidity Gap Maturity Analysis, Repricing Gap Analysis, and Interest Rate Sensitivity.

***Question 22: Do you believe that any of the amendments in this proposed Update provide information that overlaps with the SEC's current disclosure requirements for public companies without providing incremental information? If yes, please identify which proposed amendments you believe overlap and discuss whether you believe that the costs in implementing the potentially overlapping amendments outweigh their benefits? Please explain why.***

Response: Yes, there is a great deal of overlap in the proposed disclosures and Aflac's MD&A.

The Liquidity Gap Maturity Analysis table does not provide useable information regarding the liquidity risk of Aflac. The descriptions of management assumptions regarding maturities of assets and liabilities, and projected liabilities are already provided in the MD&A.

The Available Liquid Funds disclosures table provides information, which may be useful to stakeholders of Aflac's financial statements. The MD&A already includes discussion of Capital Resources and Liquidity. We feel a table of available liquid funds may logically belong in this section along with the existing discussion.

The Repricing Gap Analysis table does not provide useful information regarding Aflac's interest rate risk, as Aflac's financial assets and financial liabilities do not undergo automatic repricing. Aflac's MD&A contains a description of how expected durations are determined.

The Interest Rate Sensitivity table does not provide useful information regarding Aflac's interest rate sensitivity, as it does not allow forward-looking data. Aflac's MD&A discusses interest rate risk, and contains a table showing the sensitivity of fair value changes of financial instruments.

Sincerely,

A handwritten signature in black ink, appearing to read "June P. Howard". The signature is written in a cursive, flowing style.

June P. Howard  
Senior Vice President and  
Chief Accounting Officer