January 31, 2011

Ms. Leslie F. Seidman, Chair
Financial Accounting Standards Board
401 Merrit 7
Norwalk, CT 06856-5116

Re: Discussion Paper: Effective Dates and Transition Methods

Dear Ms. Seidman:

The American Council of Life Insurers (ACLI) and GNAIE\(^1\) welcome the opportunity to provide comments on the Discussion Paper: Effective Dates and Transition Methods (DP). Most importantly, our memberships support high quality financial reporting standards and would not be amenable to sacrificing quality for timing of finalization and implementation. The standard setters have worked tirelessly on developing high quality standards. Establishing arbitrary finalization timelines and backing into a completion plan with hard wired due dates would not cultivate the rigor and due process necessary to implement the standards.

With respect to implementation dates, while there is some appeal for the “big bang” single implementation date approach, too much uncertainty exists about the outcome of many of the projects. For example, the FASB has not yet released an exposure draft on Insurance Contracts and the Boards are currently re-deliberating the Financial Instruments standard. Furthermore, the Financial Statement Presentation, and Financial Instruments with Characteristics of Equity exposure drafts have not been released for comment. In addition, we have significant concerns with the resources required to accomplish a single-date transition approach.

Convergence of IFRS and U.S. GAAP needs to be considered, the status of which is also unknown. The final standard on insurance contracts may result in a profound change from current accounting for U.S. insurers. This project alone could require significant resources and time to implement. Our recommendation is that a single date should be set for insurance contracts, revenue recognition, and financial instruments. This date should be a minimum of three to five years after the final guidance for all three of these standards is issued. While for the most part, Leases and Comprehensive Income could have different effective dates, some companies have expressed a preference for lease accounting to have the same effective date as insurance contracts. Because of the uncertainty about the completion date for financial statement presentation and financial instruments with characteristics of equity projects, it is difficult to

\(^1\) The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90% of the assets and premiums of the U.S life insurance and annuity industry. GNAIE consists of Chief Financial Officers of leading insurance companies including life insurers, property and casualty insurers, and reinsurers. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations.
express a view about their potential effective dates.

Insurers are especially concerned about the size of the project, assuming a single date to implement a new standard for insurance contracts, revenue recognition and financial instruments is approved. Specifically, we are concerned with the amount of human resources necessary to implement just these new standards. The project scope will no doubt rival the effort required to implement the Sarbanes-Oxley Act (SOX) of 2002. The process changes, systems changes, development of effective internal controls and the ongoing maintenance will challenge the best of companies. In 2005, the Financial Executives International Survey reported that the average company cost to implement SOX Section 404 was expected to be $4.4 million. The initial indications from companies are that the project size to implement the accounting changes will exceed that of SOX. Consequently, the expected implementation cost for some of the larger insurers could exceed $10 million each and the total industry cost could exceed $1 billion. Not only are the amounts staggering, insurers are concerned with the availability of additional quality personnel to successfully complete the project while continuing to conduct operating and financial statement reporting activities. While companies are working toward implementation and completion by the effective date, the project scope does not take into account potential additional efforts due to the issuance of other new standards during the implementation period. It is unlikely standard setters will be able to place a moratorium on issuing other new guidance during this time period. Furthermore, the possibility that the IASB and the FASB may not converge on all key aspects of the guidance raises concerns that companies will need to implement changes multiple times over a relatively short period as they would be required to comply with U.S. GAAP modifications and then subsequently convert to a different IFRS standard.

Attached are our comments to the specific questions asked in the DP. We appreciate the opportunity to provide comments and look forward to continuing to work with you on this initiative.

Sincerely,

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Q1. Please describe the entity (or the individual) responding to this Discussion Paper. For example:

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
While all seven projects will impact the insurance industry, we are especially concerned about the effective dates for insurance contracts, revenue recognition, and financial instruments. These three projects will likely fundamentally change the way information is gathered, measured, disaggregated, reported, and analyzed. Not only will this be a major project to convert existing systems and processes but will also result in ongoing maintenance to ensure the accuracy and quality of the information. The proposed changes could have a profound affect on U.S. insurers resulting in significant efforts to implement. To a lesser extent and varying by member company, the leases project could have material implications related to both time to implement as well as a financial statement impact.

Q2. 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 the new standard?

Response
It is difficult to assess the time need to learn, train, plan and implement the projects individually. However, we believe, given the magnitude of the expected changes resulting from a new standard for insurance contracts, and when combined with revenue recognition, and financial instruments that it will take in excess of three years to implement the requirements. Given that U.S. publicly traded companies are required to present income statements for the current year and the previous two years in their audited financial statements, we suggest that the new standards be effective a minimum of three to five years after the final guidance for all three of these standards is issued. The remaining projects could have a different effective date.

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
The types of costs necessary to plan and implement the new standards include the following:

- Consulting resources – Insurers rarely have idle internal resources. Consequently, major projects routinely require outside consulting services to facilitate the planning and implementation. Finding qualified resources will be a challenge and will likely be one of the largest expenditures of the total project cost.
- Internal resources – While consulting services will be a critical element, internal accounting, actuarial and IT staff will be needed. The accounting resources are essential.
to understand the scope of change, the processes requiring change, and the internal controls necessary to ensure the accuracy and quality of information.

- Hardware/software – It is difficult to estimate the needs for IT hardware and software but it’s common for major projects to incur additional hardware and software costs to meet the increased complexity and volume along with ongoing system maintenance expenses.
- Training – New processes and procedures result in retraining existing staff and in this case will also require educating analysts and regulators about the new standards, which may also lead to more detailed financial requests.

Q3. 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
U.S. GAAP serves as the starting point for the development of statutory accounting principles for insurers operating in the U.S. Accordingly, insurers will likely have a corresponding change to statutory reporting that will add to the project scope. It is also quite possible that the tax code could change as a result of the new standards. It is unclear at this time what changes the SEC might require, especially related to disclosures, which will need to be addressed where the time frame for disclosure may span more years than presented in the financial statements.

In addition to the time and effort to implement the changes necessitated by the new standards, companies will need to disclose the potential financial impact of these changes during the transitional period. Also, any other new standards will need to be accommodated during this time.

Q4. 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
Typically the transition issue tends to revolve around a retrospective application or prospective application. Each project needs to carefully assess the practicability of a retrospective application. Insurance companies that have a long history, especially those writing long-duration contracts, may find it difficult to apply the insurance contracts standard retroactively.

There is too much uncertainty about the scope of the projects since the FASB has not yet released exposure drafts on Insurance Contracts, Financial Statement Presentation, and Financial Instruments with Characteristics of Equity. Transition will, in large part, be driven by the scope of change. For example, the final standard for insurance contracts will be a significant work effort for U.S. companies. Likewise, the financial statement presentation project, when finalized, could be a major project in and of itself.

Ample lead time should be allowed to accumulate data to comply with the new reporting requirements such that the first year of reporting under the new standards will contain comparable numbers for all years presented. Ensuring ample lead time will not only serve to assist in the compliance with the new requirements but will also serve to produce useful information for users, which will be a faithful representation of the business.
Q5. 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
Our recommendation is a modified sequential approach. Modified in that we believe certain projects should be grouped and implemented together in phases with each phase having a common implementation date, specifically, insurance contracts, revenue recognition, and financial instruments should be so grouped. These standards are interrelated; therefore, measuring the cumulative effect of all these changes at a common transition date is appropriate and may make the audit work easier. One advantage identified by companies is that it will be easier to explain the changes to investors and analysts at one time by combining projects as recommended. The other projects could be sequentially implemented based upon their complexity.

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 as the impact of interdependencies among the new standards.

Response
Our recommendation is that a single effective date with a minimum of three to five years after the final guidance for all three of these standards is issued should be set for insurance contracts, revenue recognition and financial instruments. These projects are very interrelated for the insurance industry, which makes a common effective date essential.

Q6. 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
It may be appropriate to provide flexibility since companies will not be equally affected by the changes. International companies with U.S. operations, for example, may have accounting standards similar to those being proposed and may not have the same degree of change or complexity. Overall, however, we believe it is appropriate to conform adoption dates since permitting varying adoption options would conflict with the underlying premise of convergence; i.e. a level playing field and consistent accounting around the world. Otherwise, the non-comparability that exists in the world today would not be solved expeditiously, and non-comparability would be introduced in the U.S. where it does not exist today.

Q7. 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
We cannot think of any compelling reason to have different effective dates for different types of entities. By setting the effective date with sufficient lead time to implement, it should not disadvantage any sector.

Q8. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

Response
Absolutely. Given the two Boards expressed views about convergence, the same effective date and transition methods are critical. Not having the same date, we believe, sends a message that convergence is not a priority. In addition, different effective dates will likely make it difficult for analysts to compare and understand the financial statements and the effects of period-to-period changes.