The American Council of Life Insurers (ACLI) appreciates the opportunity to provide its comments to the Financial Accounting Standards Board (FASB) concerning Proposed Staff Position No. FAS 97-a (FSP). The ACLI is the principal trade association of life insurance companies, representing 368 members that account for, in the aggregate, 71 percent of the assets of legal reserve life insurance companies in the United States.

The FSP addresses the issue of when it is appropriate to record an unearned revenue liability. We agree with the position that the staff has taken in the FSP. We support the principles based approach that the FSP provides as guidance. This approach is preferred over a rules-based approach, such as that of Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1).

While we are satisfied with the position on this issue, there remain unresolved issues with SOP 03-1. The primary concern of the life insurance industry is the application of SOP 03-1 to the base mortality component of universal life contracts. We did not foresee, nor do we believe that the Accounting Standards Executive Committee (AcSEC) foresaw, that the interpretation of this SOP would have such far-reaching implications for Universal Life products. It was our understanding that this SOP was intended to address products and features that are currently available, may become available, but in either event, were not contemplated when FAS 97 Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments was adopted. This SOP fundamentally changes the
accounting for the base mortality component of universal life contracts, a product feature that clearly existed at the time FAS 97 was introduced.

There were never any open debates concerning this SOP between AcSEC and the industry, especially regarding its application to universal life contracts. In fact, when the ACLI initially provided comments to AcSEC in October 2002, this issue was not even contemplated nor addressed. We have recently submitted comment letters to the AcSEC expressing this concern with a request for a delay in the implementation of the SOP. This delay would allow for a period of open debate to discuss the merits of the SOP as the accounting firms are currently interpreting it.

We respectfully request the FASB to encourage AcSEC to delay the implementation of this SOP and work with industry in resolving the issues we have previously raised regarding the interpretation of this SOP. Our member companies are committed to providing the necessary support to AcSEC to ensure that the identified issues are satisfactorily resolved and the SOP results in an improvement in practice.

Thank you for the opportunity to provide comments on this important topic.

Sincerely,

James F. Renz