December 20, 2017

Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

RE: Accounting for the Income Tax Rate Changes of Tax Reform

Dear Chairman Golden:

These comments are filed by the American Insurance Association (AIA), the National Association of Mutual Insurance Companies (NAMIC), the Property Casualty Insurers Association of America (PCI) and the Reinsurance Association of America (RAA) (collectively the ‘Trades’) and represent the great majority of insurance companies issuing and reinsuring property and casualty (P&C) insurance throughout the United States.

We are writing in support of the December, 13, 2017 letter filed by the American Bankers Association (ABA), proposing to allow the use of International Financial Reporting Standards’ “backwards tracing” rule for items originally reported in accumulated other comprehensive income (AOCI) to record the change in income tax rates as a result of the recently passed Tax Cuts and Jobs Act. This act will materially reduce the U.S. Federal corporate income tax rate to 21%, effective after December 31, 2017.

Similar to the banking industry, the P&C industry holds sizable investment portfolios and thus have significant unrealized gains and losses recorded in AOCI.

As explained in the ABA letter, the Accounting Standards Codification Topic (ASC) 740-10-45-15 requires deferred tax assets (DTAs) and liabilities (DTLs) to be adjusted upon enactment of the new tax law and the changes to be recorded in net income from continuing operations (as income tax expense), even when the corresponding deferred taxes relate to items presented in AOCI. Once recorded, the income statement write-off amount will need to be tracked and released when the AOCI item related to that write-off is disposed.

The Trades agree that this treatment is confusing to the financial statement users and the subsequent tracking and reconciliation will not add value, but create additional reporting burdens for years to come. Therefore, the Trades concur with the ABA’s recommendation to allow the use of “backwards tracing,” which would result in recording the tax rate change for the related items within AOCI. This approach should enable most companies to apply the income tax rate change to their DTAs and DTLs without creating and maintaining significant additional documentation.
While the ABA letter referred to an effective date of January 1, 2019, and the effective date in the current bill is January 1, 2018, we believe the issue raised in the letter continues to be problematic. As noted, the timing of the new corporate rate will create considerable burden on preparers to calculate and process the impacts, while adding considerable complexity for investors and other financial statement users, and further obfuscating the resulting financial statements. We believe a change is needed to ease the reporting burden before the year-end reporting season gets underway.

Thank you for your attention to these matters and for considering our views. Please feel free to contact anyone of us if you would like to discuss this in more detail.

Sincerely,

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