ACLI
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Mr. Mark Trench
Financial Accounting Standards Board
401 Merrit 7
Norwalk, CT 06856-5116

Re: EITF 09-G, Clarification of the Definition of Deferred Acquisition Costs of Insurance Entities

Dear Mark:

The American Council of Life Insurers (ACLI) is pleased to share with you our views regarding issues related to EITF 09-G, *Clarification of the Definition of Deferred Acquisition Costs of Insurance Entities* (EITF). You'll recall that the ACLI recently submitted a letter (November 13, 2009) to the IASB and FASB detailing our thoughts about the accounting for acquisition costs as they relate to the insurance contracts project. As you know, both Boards have reached a tentative decision that acquisition costs should be expensed. With this view in mind, we are deeply concerned with the development of this EITF and the need to revise the current U.S. GAAP accounting for deferred acquisition costs (DAC).

It is our understanding that this EITF is in part due to questions asked by the SEC related to advertising costs that are included in DAC noting diversity in practice. In our September 1, 2009 letter, we responded to specific questions about the insurance industry's practice regarding advertising costs stating that generally these costs are expensed. There are a few situations, however, where advertising costs could be capitalized and we provided some examples. Our conclusion was that general marketing costs are expensed as incurred while certain advertising costs that vary with and primarily relate to the acquisition of new and renewal insurance contracts may be appropriately included in an insurance company's DAC calculation. In other words, the decision on what costs are deferred is not simply made based on the type of expense but rather how the expense is tied to the acquisition of new business.

In the exchange of e-mails, you asked us to provide comments on the application of the phrase "that vary with and primarily relate to... " insurance contracts since this phrase will likely be at the core of the discussion. The proponents and opponents views described in the EITF sufficiently cover the topic. We have nothing more to add at this time. While we appreciate the observation that there may be diversity in practice, we are more concerned about the timing and impact this EITF could have on the insurance industry.

Our assessment of the various views outlined in the EITF is that regardless of the view selected by the Board, there will continue to be judgment in assessing which acquisition costs are eligible for deferral. We doubt that unless there is prescriptive guidance provided on the types of expenses that can and cannot be deferred there will be some level of diversity in practice. In addition, the safeguards that are part of current U.S. GAAP prevent a company from carrying an asset with no future benefit. SFAS 60, paragraph 31 prohibits a company for deferring acquisition costs if there are not enough gross premiums to cover the cost. Furthermore, once an asset is established the asset is subject to recoverability testing (SFAS 60, paragraphs 35-36).

More importantly, by changing the definition of the costs that can be deferred companies will be impacted resulting in added costs to the industry with little benefit. The incremental improvement does not justify the added cost.

An effective date beginning with fiscal years after December, 2010, will be closely followed with major changes to the measurement of insurance contracts resulting from the expected completion of the insurance standard planned for 2011. If the Board decides to move forward with the EITF despite our reservation, we request that the EITF be prospective in its application with limited interpretive change to existing DAC guidance. Member companies have noted that they do not retain the underlying records for the entire period of DAC amortization, which can span 20 years or more for life insurance contracts and therefore do not have the information to apply the standard retrospectively. . Likewise, eliminating deferral of underwriting costs would be a major change to current guidance in SFAS 60. Such a change could cause inconsistent results between companies depending on whether the underwriting function is outsourced or performed by company employees. Lastly, will the EITF apply to ceding commission deferrals? If not, the accounting guidance could provide a benefit to reinsurers.

In summary, our recommendation is that the Board should not continue working on the EITF and redirect staff resources to other high profile projects. We agree that clarification around the various interpretations and views presented in the EITF is necessary. However, we feel that this effort is best served within the context of finding a solution for DAC within the insurance contracts project. The FASB should focus this effort in the context of the new standard rather than trying to clarify the definition of DAC in the old standard.

Sincerely,

MMonahan

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