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Technical Director
File Reference No. 2016-330
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via e-mail to director@fasb.org

Reference: Proposed Accounting Standards Update: *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*

Dear Technical Director:

The Hartford Financial Services Group Inc. ("The Hartford") appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB") Proposed Accounting Standards Update ("ASU") concerning *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts* ("Proposed ASU"). The Hartford provides property and casualty and group benefits insurance, as well as investment products to both individual and business customers in the United States of America. We also continue to manage life and annuity products previously sold. As of December 31, 2015, we held liabilities of more than $100 billion on long-duration contracts and will be impacted by the final guidance resulting from this Proposed ASU.

We support the FASB's objectives for the Proposed ASU and we believe the proposed changes will generally result in financial statements and disclosures that are more useful, reliable and easier to understand than under current U.S. GAAP. In addition, although the time and cost to adopt the proposed changes will be significant, we believe the ongoing cost of accounting for long-duration contracts will be lower than today if cash flow assumptions are calculated and recognized on a prospective rather than a retrospective basis. The Hartford offers the following summary of our observations. These and other comments are discussed under the relevant questions from the Proposed ASU in the attached appendix:

- We do not agree that the effect of updating cash flow assumptions should be calculated and recognized on a retrospective basis. The process of estimating future policy benefit reserves is inherently uncertain and we do not believe that a retrospective approach offers significant benefits that outweigh the costs as it would require maintaining "cradle to grave" information for policyholders, including former policyholders, from origination to ultimate settlement. We believe that updating cash flow assumptions on a retrospective basis is unduly complex and burdensome for insurers to implement and maintain and we would incur significant incremental costs. Therefore, we recommend that the FASB modify the proposal to apply cash flow assumption updates on a prospective basis.

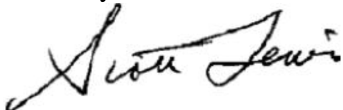
- We agree that deferred acquisition costs should not be subject to impairment testing. While we understand the conceptual argument for impairment testing, we believe the benefits of the simplified approach outweigh any perceived benefits of an impairment test. Requiring an impairment test would mean having to maintain the models we currently run that would otherwise be eliminated by simplifying DAC amortization. In other words, we would lose the operational benefit of simplification. Further, from a user perspective, impairment recognition results in a less predictable amortization pattern and less comparability among companies.

- We believe the proposed disclosure requirements represent a significant increase to current requirements and will be challenging to complete and audit in the limited time frame required by the SEC for public companies. In addition, we believe:
    - Disclosures should be required at interim dates only when warranted under the interim reporting requirements of Topic 270.
    - Disclosure requirements for market risk benefits in the Proposed ASU are unnecessary given existing disclosure requirements under Topics 820 and 815, for fair values and derivatives, respectively.
    - Companies should not be required to present weighted averages of significant inputs for market risk benefits given there is no appropriate way to weight the values of the inputs.
    - Some of the proposed disclosures may be better suited for in management's discussion and analysis but do not belong in the audited financial statement disclosures. These include disclosures for earned rates on policyholder funds and discussion of risk management because assets and derivatives are not explicitly linked to liabilities in the financial statements.

- If the Board were to issue a final standard consistent with the Proposed ASU, we would incur very significant implementation costs. Significant time will be needed to educate management, the board, employees and the user community. In addition, if updating cash flow assumptions must be done using a retrospective method, the Proposed ASU will result in high costs for making system changes and building a database of historical data. Therefore, we recommend a transition period of at least three years from the time a final standard is issued, or at least two years if the FASB modifies cash flow assumptions on a prospective basis.

Thank you for the opportunity to provide input on the proposal. Please contact me at 860-547-4848 or scott.lewis@thehartford.com if you would like to discuss our suggestions.

Sincerely,



Scott R. Lewis

Appendix
Insurance Contracts – Questions for Respondents

Liability for Future Policy Benefits—Contracts Other Than Participating Contracts

Question 1—Scope: Do you agree with the scope of the proposed amendments on the accounting for the liability for future policy benefits for contracts other than participating contracts? If not, what types of contracts, contract features, or transactions should be included in or excluded from the scope and why?

We agree that the proposed changes to the accounting should apply to contracts accounted for within the liability for future policy benefits except for participating contracts.

Question 2—Cash flow assumption update method and presentation: Do you agree that the effect of updating cash flow assumptions should be calculated and recognized on a retrospective basis in net income? If not, what other approach or approaches do you recommend and why?

We do not agree that the effect of updating cash flow assumptions should be calculated and recognized on a retrospective basis. The process of estimating future policy benefit reserves is inherently uncertain and we do not believe that a retrospective approach offers significant benefits. We believe that updating cash flow assumptions on a retrospective basis is unduly complex and burdensome for insurers to implement and maintain and does not provide more useful information. For certain types of contracts, for example whole life insurance policies and lifetime annuities, insurers would be required to maintain "cradle to grave" information for policyholders including former policyholders included in issue date cohorts. Maintaining historical records and updating all issue date cohorts to constant level assumptions is not worth the benefit. The Board rejected the prospective approach because it results in recognizing the prior-period effects of assumption changes over future periods. We believe, however, that adjusting assumptions prospectively is appropriate, particularly as investors will be given information about, and the effects of, those assumption changes in the Proposed ASU disclosures. As such, we believe current prospective assumptions should be used to measure the liability for paid-up policies and for calculating the reserving ratio for policies with ongoing revenues. The Proposed ASU requires disclosures about significant assumptions and amounts related to revenue and benefits. We believe current best estimate assumptions are more meaningful than retrospectively restated assumptions which are a blend of historical and future estimates. Furthermore, cash flow projections primarily involve mortality and lapse rate assumptions which are not volatile enough to cause the prospective method to result in a materially different estimate of cash flows than would be calculated using a retrospective method We believe investors are interested in predicting future performance, and current assumptions are simpler to understand and compare among entities for this purpose. In addition, requiring the retrospective method for reserving would cause a level of modeling complexity that is very similar to that required in the current DAC amortization model, so requiring the retrospective method would introduce complexity like the Board sought to eliminate in amending the approach for amortizing DAC.

For all these reasons, we recommend that cash flow assumptions be estimated and the accounting effects be recognized on a prospective basis. This approach would result in reduced complexity and more decision-useful information as well as lower implementation and ongoing costs than a retrospective approach.

Question 3—Cash flow assumption update frequency: Do you agree that cash flow assumptions should be updated on an annual basis, at the same time every year, or more frequently if actual experience or other evidence indicates that earlier assumptions should be revised? If not, what other approach or approaches do you recommend and why?

We agree that cash flow assumptions should be updated annually or more frequently if actual experience or other evidence indicates that earlier assumptions should be revised. We agree that a liability measured with updated assumptions provides more decision-useful information to users on management's expectations of future net benefits to be paid. Furthermore, we believe cash flow assumptions primarily involve mortality and lapses which are not volatile enough to warrant more frequent update.

Question 4—Discount rate assumption: Do you agree that expected future cash flows should be discounted on the basis of a high-quality fixed-income instrument yield that maximizes the use of current market observable inputs? If not, what other approach or approaches do you recommend and why?

We believe that the discount rate should reflect a different liquidity adjustment than a rate based on high-quality fixed-income instruments because insurers' investment portfolios are typically weighted lower than high-quality, which is reflective of the liabilities' lower liquidity risk. High-quality fixed income is broadly understood to mean double-A rated based on SEC guidance. We understand the Board's rationale for de-linking the discount rate from an entity's own investment experience; however, we believe that the investment decisions reflect the liquidity characteristics of the liability. We agree with the decision to select a proxy for the discount rate; however, the proxy should better reflect the liquidity of the liabilities. Insurance entities generally have investment portfolios weighted closer to single-A, which we believe better reflects the liquidity risk inherent in insurance liabilities. All companies should use the same quality level (for example "single-A") as the proxy for the liquidity-adjusted discount rate and one that maximizes observable market inputs.

Question 5—Discount rate assumption update method and presentation: Do you agree that the effect of updating discount rate assumptions should be recognized immediately in other comprehensive income? If not, what other approach or approaches do you recommend and why?

We agree that changes in the current discount rate be recognized in other comprehensive income as this approach results in better matching between the accounting for an insurance entity's assets and liabilities.

Question 6—Discount rate assumption update frequency: Do you agree that discount rate assumptions should be updated at each reporting date? If not, what other approach or approaches do you recommend and why?

We agree that the discount rate assumption should be updated at each reporting date. Although we recognize that updating the discount rate quarterly may result in additional volatility in the reported balance of future policy benefits, failing to update the discount rate quarterly would result in additional volatility in other comprehensive income since invested asset fair values will continue to be updated at each reporting period.

Liability for Future Policy Benefits—Participating Contracts

Question 7—12 (participating contracts)

We have no comment on questions 7 through 12 because we have no participating contracts or closed block business.

Market Risk Benefits

Question 13—Scope: Do you agree with the scope of the proposed amendments on the accounting for market risk benefits? If not, what types of contracts or contract features should be included in or excluded from the scope and why?

We agree with the scope of the proposed amendments on the accounting for market risk benefits; however, we are concerned that the proposed wording would require unintended benefit features to be measured at fair value. An example would be variable annuities where annuitization rates are guaranteed based on a specific interest rate and mortality table. If interest rates decline, the fair value of guaranteed annuitization benefits may exceed the account value. We believe such features should not be considered market risk benefits, because the risk of loss is not related to the risk of the performance of the separate account investments. Likewise, the same unintended accounting result would occur for a fixed annuity with guaranteed annuitization rates even though that guarantee is not a market risk benefit.

We believe that, under existing accounting, market risk guarantees on non-variable products are appropriately accounted for at fair value where they meet the definition of an embedded derivative under Topic 815. We recommend the FASB preserve language that does not treat annuitization rate guarantees as embedded derivatives in the accumulation phase of deferred annuities and add clarifying language that these are not market risk benefits.

Specifically, the language at ASC 815-15-55-518 should be preserved to exclude plain vanilla type annuitization options from being embedded derivatives. Language should be added to ASC 944-40-25-25C item b to clarify that annuitization rate guarantees are also not market risk benefits (indicated in underscore):

> Benefit: The insurance entity provides a benefit protecting the contract holder from adverse capital market performance <u>of the separate account investment alternatives chosen by the contract holder</u>, exposing the insurance entity to other-than-nominal capital market risk.

Question 14—Measurement: Do you agree that all market risk benefits should be measured at fair value, with fair value changes attributable to a change in the instrument-specific credit risk recognized in other comprehensive income? If not, what other alternative or alternatives do you recommend and why?

We agree that all market risk benefits should be measured at fair value, with fair value changes attributable to a change in the instrument-specific credit risk recognized in other comprehensive income and all other changes in fair value of the market risk benefits recognized in net income. We believe that recording these market risk benefits, both direct and reinsured, at fair value better reflects the economics of the liabilities than an insurance reserving model.

Deferred Acquisition Costs

Question 15—Scope: Should the scope of the proposed amendments be expanded to include investment contract acquisition costs currently amortized using the interest method in Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs?

No. The scope of the proposed amendments should not be expanded to include investment contract acquisition costs currently amortized using the interest method in Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs. The current accounting model is consistent with the accounting for similar financial instruments that are issued by non-insurance companies. In addition, the interest method is understood and not operationally burdensome.

Question 16—Amortization: Do you agree with the proposed amendments that would simplify the amortization of deferred acquisition costs? If not, what other simplified and reasonably estimable amortization approach or approaches do you recommend and why?

We agree with the proposed amendments that would simplify the amortization of deferred acquisition costs. We believe the proposed amendments will make an insurance entity's financial results easier to understand and reduce non-economic volatility in the income statement. In addition, a simplified calculation process will reduce the effort required by preparers.

Question 17—Impairment: Do you agree that deferred acquisition costs should not be subject to impairment testing? If not, what alternative or alternatives do you recommend and why?

We do not believe that deferred acquisition costs should be subject to impairment testing. While we understand the conceptual argument for impairment testing, we believe the benefits of the simplified approach outweigh any perceived benefits of an impairment test. Requiring an impairment test would mean having to maintain the models we currently run that would otherwise be eliminated by simplifying DAC amortization. In other words, we would lose the operational benefit of simplification. For example, some in the insurance industry have argued that an impairment test for universal life-type contracts should be based on the present value of estimated gross profits and such an approach would require us to retain our current models. If the FASB goes forward with requiring an impairment test, performing such a test could be very complicated and specific guidance should be provided (e.g. level of aggregation, discount rate, retrospective versus prospective, etc.) Furthermore, from a user perspective, an impairment results in a less predictable amortization pattern and less comparability among companies since those companies that impair the asset would have much lower future amortization expense.

Presentation and Disclosure

Question 18—Proposed requirements: Do you agree that the presentation and disclosure requirements included in the proposed amendments would provide decision-useful information? If not, which presentation and/or disclosure requirement or requirements would you change and why?

We support the objective of disclosures to help users of the financial statements understand the amount, timing, and uncertainty of future cash flows arising from insurance contracts. However, the proposed disclosure requirements represent a significant increase to current requirements and will be challenging to complete and audit in the limited time frame required by the SEC for public companies. We offer the following comments on specific topics.

Interim Disclosures

We believe disclosures should be required at interim dates only when warranted under interim reporting requirements in Topic 270. Interim disclosures would still be provided "where events subsequent to the end of the most recent fiscal year have occurred which have a material impact on the registrant" (ASC 270-10-S99 a5). Therefore, we believe the ASU should only specify annual disclosures.

Market Risk Benefits

We believe many of the proposed disclosures relating to market risk benefits are already required by Topic 820 and to a lesser extent Topic 815 where an entity uses derivatives to hedge market risk benefits. Market risk benefits will be classified in level 3 of the fair value hierarchy under Topic 820 and would be subject to the requirement to present a rollforward of the fair value under ASC 820-10-50-2c as well as other fair value disclosures in ASC 820-10-50. The disclosure requirements enumerated in the Proposed ASU go beyond what is required for fair value measurements under existing guidance and rollforwards attributing changes in fair value among pay and receive streams of a financial instrument are onerous and not decision-useful. Further, it should not be necessary to disclose "Qualitative and quantitative information about objectives, policies, and processes for managing risks including information about hedging activity…for market risk benefits accounted for currently at fair value" as outlined in the Proposed ASU under ASC 944-40-50-7B d. This qualitative and quantitative information, if necessary, would be suited for management's discussion and analysis under the topic of asset-liability and market risk management. In addition, additional information about use of derivatives in unnecessary as Topic 815 provides sufficient disclosure requirements for derivatives used in hedge strategies not qualifying for hedge accounting. We do not believe it is appropriate to disclose a single "hedge target" as our hedge programs are designed to achieve multiple objectives over many attributes.

The FASB should clarify the market risk disclosure requirement for disaggregating asset positions from liability positions. The example provided in ASC 944-40-55-29G implies one position is out-of-the-money when the other position is in-the-money but that is not always true. Again, we believe the disclosures required by Topic 820 for level 3 fair values should be sufficient for market risk benefits as they already provide information on fair value, valuation techniques and significant assumptions that are representationally faithful and useful.

In addition, consistent with our February 29, 2016 comments on the FASB's Proposed ASU: *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, we do not agree with the proposed requirement to present weighted averages of significant inputs for market risk benefits, including withdrawal utilization, withdrawal rates, lapse rates, reset elections, equity volatility and mortality. We do not believe that providing weighted averages would be decision-useful given there is no appropriate way to weight the values of the inputs.

Our reported fair values are based on thousands of long-term (e.g. 40 year) projection scenarios, during which time the values of many of the unobservable inputs are projected as changing. The projected values of unobservable inputs depend on capital market level paths, interest rate curve points across time, ages of contract holders across time, etc. Therefore, providing a weighted average of a dynamic unobservable input for market risk benefits would not be a fair representation or decision-useful.

We considered possible bases for weighting unobservable inputs for market risk benefits including fair value, base contract account value, net amount at risk, policy count and insurance benefit value and concluded all were significantly flawed for purposes of calculating a weighted average. Furthermore, unless one particular basis is prescribed, insurers will likely differ in what basis they select, which will degrade comparability across insurance entities.

Furthermore, the Proposed ASU's new disclosures would impose unreasonable incremental costs. In order to calculate weighted averages for our market risk benefits, we would need to program complex model changes, run the model across thousands of scenarios, test and review the data, and implement control procedures over these new requirements. These costs would be in the form of employee hours, diverted resources, programming changes, computer processing time and management review and oversight. We do not believe the weighted averages are useful so the cost is not justified.

Policyholders' Account Balances

We believe the disclosure of the weighted average earned rate (ASC 944-40-50-7A b1) and "Qualitative and quantitative information…about…managing risks…" (ASC 944-40-50-7A e) are not appropriate for financial statement disclosures. These may be appropriate for management discussion and analysis under the topic of asset-liability and market risk management. The earned rate corresponding to the credited rate is an imprecise amount. Although insurers manage investment portfolios to support liabilities, the level of specificity is not comparable across entities and entities do not necessarily maintain strict divisions between portfolios with linkage to the associated liabilities. In addition, assets may move between portfolios in support of different liabilities. In short, there is not an earned rate that corresponds directly with liabilities; therefore, the disclosure of an earned rate would not be representationally faithful as to what the disclosure intends to convey.

Deferred Acquisition Costs

We agree that the required rollforward be disaggregated consistent with the liability. Although, the DAC amortization will not move in direct relation to the liability, it involves similar inputs, judgments and assumptions, particularly if the FASB changes the liability measurement to update cash flow assumptions prospectively as we recommend.

Question 19—Additional requirements: Are there any additional presentation or disclosure requirements that would provide decision-useful information? If so, please describe them and explain why.

We do not believe there are any additional presentation or disclosure requirements that would provide decision-useful information. We believe a three year disaggregated tabular rollforward of the liability for future policy benefits, including any "additional liability," is sufficient as it provides disclosure of qualitative and quantitative information about the significant inputs, judgments, and assumptions over the three year period.

Effective Date and Transition

Question 20—Implementation date: The Board is interested in understanding the key drivers affecting the timing of implementation. What are those key drivers, and how do they affect the time it will take to implement the proposed amendments? Should the effective date be the same for both public entities and nonpublic entities?

Key drivers affecting implementation include changing systems written in older programming languages, accessing significant historical data, and training employees. A final standard which requires updating cash flow assumptions retrospectively will take a long time to implement, as the reporting entity may not have the data readily available to implement this approach. Other key drivers include educating management and the board and reaching out to investors. The more complex the final standard, the more time we will need to implement. The proposed changes are extensive and will require significant time to educate the preparer and user communities.

Based on our experience with the implementation of ASU 2010-26 on accounting for acquisition costs, interpretations emerge during the implementation period, as preparers work through implementation issues with internal constituents and auditors. We also share nonproprietary implementation issues with our peer companies, as the industry tries to achieve a general level of consistency in the application of a new accounting standard. Given

the issues involved in the implementation of ASU 2010-26, it took insurers a considerable amount of time and money to implement ASU 2010-26. The complexity of the Proposed ASU exceeds the complexities of ASU 2010-26, and, therefore we anticipate that the implementation issues and costs related to the Proposed ASU will be greater. Thus, if the Board were to issue a final standard consistent with the Proposed ASU, we recommend a transition period of at least three years from the time a final standard is issued, or at least two years if the FASB modifies cash flow assumptions on a prospective basis.

Question 21—Transition methods: Are the proposed transition provisions operable and do they provide decision-useful information? If not, what would you recommend and why?

We believe the transition provisions are reasonable. We believe we will be able to estimate the initial fair value of the market risk benefits using historical pricing models for market risk benefits we already carry at fair value, including our non-life contingent guaranteed minimum withdrawal benefits. This information will allow us to estimate the fee that would have been attributed to market risk benefits at inception. We understand some entities may not have historical pricing models and may need a practical expedient at transition. We support a practical expedient but would object to a provision that would require all entities to do something different than using an historical basis.

Question 22—Transition disclosure: Do the proposed transition disclosure requirements provide decision-useful information? If not, what would you recommend and why?

We do not agree that the transitions disclosures should be presented on a disaggregated basis, as required by ASC 944-40-65-2 f 1. We believe this is an excessive volume of information and not decision useful because prior to the adoption, the notes to the financial statements generally do not include disclosures that are disaggregated in a similar manner to the Proposed ASU. If the Board feels that some disaggregated information is necessary for users to understand the change, then we recommend that the disaggregated disclosures be limited to the impact to retained earnings.

We interpret ASC 250-10-50-1 b 2 to require companies, in the period of adoption, to calculate and disclose amounts using both the newly adopted method and the method that would have been used under the prior accounting guidance. Further, ASC 250-10-50-3 requires this disclosure for interim periods in the fiscal year in which the new accounting principle is adopted. However, in the case of new disclosures regarding long-duration contracts, we believe these requirements are excessive and onerous. Disclosure for prior periods' comparative information should provide users with sufficient information to understand the effect and relative magnitude of the accounting changes. The Board provided relief from this provision for new standards pertaining to DAC (ASU 2010-26) and revenue recognition (ASU 2016-12). Likewise, for long-duration contracts, we recommend that the Board relieve issuers from complying with the provisions of ASC 250-10-50-1 b 2 and ASC 250-10-50-3.

Costs and Complexities

Question 23—Costs and complexities: Describe the nature of the incremental costs of adopting the proposed amendments, distinguishing between one-time costs and ongoing costs. Explain which aspects of the proposed amendments are driving those costs and include ideas to make the proposals more cost effective.

Incremental costs associated with adopting the guidance of the Proposed ASU include, at a minimum, the cost of changing systems written in older programming languages, accessing significant historical data, and training employees. Requiring a retrospective method for updating cash flow assumptions would significantly increase incremental costs which is one of the reasons we recommend a prospective method for updating cash flow assumptions. The overall complexity of the Proposed ASU will result in very significant costs to adopt the guidance. In addition to incremental costs noted above, we anticipate costs related to consultants, auditors, and time spent with industry groups as preparers attempt to achieve reasonably consistent interpretations and application of the proposed new guidance. We also believe significant ongoing costs will be incurred by preparers, including costs related to maintaining an increased level of data and assumptions needed to comply with the proposed measurement, reporting and disclosure guidance.

Although costs will be significant at adoption, if the Board provides cash flow updates using a prospective method we believe the ongoing costs to maintain the accounting and reporting will be lower than today.