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Via Email: director@fasb.org

December 14, 2016

Ms. Susan M. Cosper
Technical Director
File Reference No. 2016-330
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference: No. 2016-330*, Financial Services – Insurance (Topic 944) – Targeted Improvements to the Accounting for Long-Duration Contracts*

Dear Ms. Cosper:

Ameriprise Financial, Inc., one of the nation's leading financial planning, asset management and insurance companies, appreciates the opportunity to offer comments with respect to the Proposed Accounting Standards Update, *Financial Services – Insurance (Topic 944) – Targeted Improvements to the Accounting for Long-Duration Contracts* (the "Proposed ASU").

We support the FASB's efforts to consider potential improvements to U.S. GAAP's insurance accounting model. However, we do not believe the Proposed ASU will, in all cases, enhance the quality, understandability and decision-useful information provided to users about long-duration insurance contracts. The FASB should not issue the ASU as proposed. We offer specific rationale, observations and suggestions for the targeted areas below and in more detail in the Appendix. Specifically,

- We do not believe a fair value measurement for certain options and guarantees in variable products will improve an insurer's financial statements nor will the Proposed ASU simplify the application of U.S. GAAP by preparers when accounting for these options and guarantees.

  Conversely, we believe the quality of the financial statements and the presentation of decision-useful financial information will significantly deteriorate should the FASB proceed with expanding the use of fair value measurements to certain variable product options and guarantees that the Proposed ASU considers market risk benefits. We believe a fair value measurement for these benefits is not reflective of the point-in-time economic risk. The cash flows for many of these benefits are contingent on the insured's life and should be measured similarly to other life-contingent cash flows (i.e.,

benefit ratio reserving or profits followed by losses approach). Additionally, we'd like to heighten the FASB's awareness about the significant complexity and opaqueness to companies' fair value methodologies employed today for certain variable annuity embedded derivatives. There are no observable secondary markets for insurers to transfer these liabilities at fair value and, as a result, valuation models are not consistent or comparable across companies. Under the Proposed ASU, preparers will have to materially expand the use of unobservable inputs, applying those assumptions to a complex valuation model, ultimately arriving at a value that we believe is less relevant and reduces financial statement quality and comparability.

Rather, in an effort to address FASB's concerns around the industry's inconsistent application of current U.S. GAAP for guarantees in variable annuity contracts, we suggest the FASB clarify through the addition of explicit guidance within Topic 944 language that requires the life-contingent cash flows of long-duration insurance contracts to be measured using a benefit ratio prescribed in Topic 944. Such a change to U.S. GAAP would drive consistency in the measurement of today's guaranteed variable annuity benefits.

This new clarity for life-contingent cash flows within Topic 944 would also eliminate the challenges the Board references in applying U.S. GAAP within the insurance industry. Additionally, we suggest the FASB could clarify within Topic 815 that only the cash flows that are guaranteed to a contractholder regardless of whether the contractholder lives or dies (i.e. non-life contingent cash flows) should be considered embedded derivatives.

Our suggested changes would eliminate many of the transition challenges of using fair value to measure all market risk benefits and would alleviate the need for practical expedients in transition and significantly reduce implementation costs and ongoing compliance and audit costs of adopting the Proposed ASU.

- We do not support the proposed simplification of deferred acquisition cost (DAC) amortization methodologies. Simplification that eliminates the usefulness of reported financial information should not be considered an improvement to the overall accounting model for long-duration insurance contracts. We believe that the complexities noted by users arise from the application of retrospective unlocking rather than other aspects of the DAC amortization model (premium paying period or estimated gross profits). In an effort to identify simplified measures without reducing the usability of financials, we recommend retaining existing accounting for amortization of DAC and researching whether prospective unlocking would simplify current U.S. GAAP yet retain a meaningful economic link to the performance and profitability of the acquired contracts. We suggest a preparer-through-user field test of prospective unlocking to ascertain whether the change would introduce meaningful information and acceptable simplicity for financial statement preparers and users.

- We do support the FASB's efforts to improve the timeliness of recognizing changes in future policy benefit liabilities by requiring the use of updated assumptions in the periodic measurement of future policy benefits. However, we believe a prospective approach to assumption changes rather than a retrospective approach back to contract inception will provide a simpler, more cost-effective mechanism for preparers to estimate the liability without jeopardizing the usefulness of the financial statements for users. A prospective unlocking model would improve the understandability and the quality of the financial statements when compared to both existing U.S. GAAP and the Proposed ASU. This

coupled with the aforementioned prospective DAC unlocking would simplify the accounting for long-duration insurance contracts.

- We do not support the FASB's belief that discounting insurance reserves using a high-quality fixed-income instrument yield will improve the quality of an insurer's financial statements. We suggest that the FASB retain existing accounting allowing the use of an entity's expected asset earned rate for discounting insurance reserves. As an improvement to U.S. GAAP and to facilitate comparability between insurers, we recommend introducing enhanced quantitative disclosures surrounding discount rates used in estimating the future policy benefit liability. Using a high-quality fixed-income yield provides no better or meaningful financial measure to the users of the financial statements than currently utilized. In fact, because of our in depth asset/liability management process, we believe the expected asset earned rate would better reflect the characteristics of the insurance liability.

- With respect to the transition requirements in the Proposed ASU, should the FASB continue with their proposed changes, we have significant concerns over the operability of the transition requirements, most notably transitioning to a fair value measurement for market risk benefits. We believe the retrospective approach to contract inception for market risk benefits is inoperable and impractical. We believe much of the information necessary to derive a fair value (as defined by Topic 820) from contract inception through adoption date is not available and in certain instances will require the use of hindsight.

Should the FASB continue with the project as proposed, we ask that issuance of the final standard be delayed until extensive field testing is conducted and evaluated. Specifically, we suggest the FASB:

- Conduct extensive field testing around companies' ability to develop fair value models to be used to value market risk benefits with the objective of ascertaining whether companies can develop consistent and comparable fair value methodologies and unobservable assumptions that would result in decision-useful information.

- Discuss with public accounting firms, in sufficient detail, questions and challenges that have arisen over the years around the application of fair value measurements to embedded derivatives in variable annuity contracts, including obtaining information on audit costs for expanding the fair value measurements to all market risk benefits.

- Consider whether the proposed incremental use of fair value for certain guarantees and options will significantly increase the use of non-GAAP measures by variable annuity writers (and potentially to variable universal life writers). It is common practice in our industry to exclude changes in the fair value of embedded derivatives and related derivatives used for hedging purposes from operating earnings metrics.

These matters are discussed in greater detail within our response to the specific questions posed within the Proposed ASU in the Appendix to this letter.

In conclusion, we ask that the FASB not issue the final standard as proposed, rather consider our views expressed within this letter and amend the Proposed ASU accordingly.

Thank you for your consideration of our comments on these very important matters. If you have any questions, comments or would like further information, please contact me at (612) 678-4769.

Sincerely,

David K. Stewart
Senior Vice President & Controller

Appendix – Responses to FASB's 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 concur with the scope of the Proposed ASU; however, refer you to Question 13 on scope concerns surrounding market risk benefits.

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?*

While we agree with the Board that an insurance liability measured with updated assumptions provides more decision-useful information and a more faithful representation of an insurance entity's obligations to its policyholders, we do not agree with the Board's decision to retrospectively unlock the cash flow assumptions.

We understand that the Board had deliberated and rejected the prospective unlocking approach because it would carry forward into future periods the prior period effects of assumption changes. However, we believe the costs of retrospectively unlocking far outweigh the benefits. We expect the cost to preparers to be significant and the process necessary to retrospectively unlock to be unreasonably complex, in most cases requiring companies to evaluate many decades of data that may impact their assumptions. We believe retrospective unlocking will result in significant costs to users to enhance their processes as they attempt to understand and comprehend complex financial trends both at transition and ongoing. This is consistent with the underlying concerns users expressed around current U.S. GAAP's retrospective DAC amortization model, including citing the complex models, numerous inputs and assumptions and annual (or periodic) adjustments that are challenging to calculate, understand and explain. The complexity resulting from the Proposed ASU will severely limit the ability of users to adequately analyze insurers' financial results.

The FASB should not minimize the effort, complexity and expense of performing retrospective unlocking for traditional long-duration insurance contracts regardless of how many insurance companies may be familiar with retrospective unlocking for universal-life type products (refer to Proposed ASU Basis for Conclusions BC41). While familiarity may help with the design of necessary actuarial models it will by no means reduce the level of effort that must be expended at transition and throughout the insurance contracts existence to calculate, evaluate and communicate the impact of retrospective unlocking. Significant investment in information technology and human resources will be required to calculate historical period financial impact. Data limitations driven by firm's existing data retention policies may present a significant challenge to performing the retrospective unlocking. We do not believe the theoretical benefits outweigh the material costs of designing, developing and implementing the models and technology necessary to conduct annual retrospective unlocking, as well as the significant and recurring costs necessary to report and explain to and educate users on the periodic impact of

retrospective unlocking. Therefore, we suggest the FASB work towards a more simplistic prospective unlocking model for all insurance contract liabilities.

Beyond our objection to the retrospective unlocking noted above, we'd like to highlight one technical matter noted in the Proposed ASU. ASU 944-40-30-15 states that expense assumptions used to calculate the future policy benefit reserve shall not include policy maintenance expenses. This would be a change from current practice and we expect it would reduce reserves. We do not believe the FASB's targeted changes were meant to change the conceptual assumptions used in insurance reserving methodologies, rather the FASB's scope was to determine if those assumptions should be updated throughout the life of the insurance policy.

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 with the Proposed ASU that cash flow assumptions should be updated annually at the same time every year, or more frequently if experience or other evidence warrants a change in assumptions.

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 do not agree with using a discount rate that represents a high-quality fixed-income instrument yield to discount future policy benefits. Such a rate is arbitrary and meaningless in the context of an insurer's liabilities. We noted that the Board rejected developing a liability rate using defined top-down/bottom-up approach during re-deliberations of the FASB's last insurance contract accounting proposal because it was conceptually and practically challenging (ASU Basis for Conclusions 51). We agree with that decision. However, the Proposed ASU's high-quality fixed-income yield essentially serves only as a practical expedient and introduces a variable into an insurer's financial statements that is not reflective of an insurer's liabilities or any aspect of the insurer.

We believe that the economics of our business model should manifest in the financial statements illustrating our asset/liability management process. Our portfolio investing strategy is designed to adequately fund the policyholder benefits when they become payable, sometimes many decades in the future. The long-duration nature of our products allows insurers to invest and fund their liabilities through many different investment cycles with short-term changes in fixed-income instruments having minimal impact on the insurer. Therefore, the expected asset earned rate would better reflect the characteristics of the liability. Using a current arbitrary, unrelated interest rate does not accurately reflect the long-duration nature of these insurance liabilities. In fact, de-linking the asset and liability would greatly confuse users of the financial statements, would create an artificial asset/liability mismatch (or match) and would not achieve the Board's desired outcome of enhancing the quality and usability of the financial statements.

We would also like to highlight that small changes in points on the yield curve for high-quality fixed-income instruments that are not market-observable will have material impacts to the reserves. Given the unobservable nature of these points and the adjustments insurers would

need to make, FASB's desire for comparability and consistency in calculating a discount rate will not be improved through the FASB's prescriptive yield proposal.

We suggest the FASB retain the existing U.S. GAAP's expected asset earned rate for determining the discount rate, allowing insurers to illustrate their long-term expected asset earned rate applicable to the term of the liability. We believe existing U.S. GAAP's expected asset earned rate is a better 'practical expedient' in calculating present value of future policy benefits than a high-quality fixed-income rate as current U.S. GAAP is more reflective of the insurer's economics and is not arbitrarily determined. We acknowledge the challenges users may face without adequate disclosure and therefore, in an effort to enhance the understandability of an insurer's financial statements, we suggest an insurer be required to disclose their range and weighted average of discount rates used in calculating their future policy benefit reserves. This enhanced disclosure will allow users to identify and evaluate differences amongst companies and assist in their evaluation of an insurer's balance sheet. We highlight that in your Basis for Conclusions, the FASB placed "an emphasis on ease of operability" (ASU BC51) which, from our perspective, would be to retain existing U.S. GAAP with enhanced disclosures.

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?*

Should the FASB proceed with their proposed discount rate assumption definition, we agree with recognizing the impact of discount rate changes in other comprehensive income (OCI).

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?*

Given the significant time between contract issuance and expected benefit payment for the many products sold, updating discount rates more frequently than updating other experience assumptions adds another variable in the reserve calculation and expands complexity in the financial statements. This added complexity and incremental cost is not necessary to allow users to evaluate the current financial condition, liquidity or results of operations of an insurer. We suggest, at a minimum, aligning the frequency of updating the discount rate assumption with the frequency of updating the cash flow assumptions.

Additionally, if the FASB agrees with our suggestion to retain the expected asset earned rate to discount our liabilities (see Question 4), the discount rate assumption would not need quarterly updating as the rate is a long-term assumption which is reflective of the long duration of the liabilities and is not as sensitive to short-term market fluctuations.

Should the FASB continue with the Proposed ASU and the changes to the definition of the discount rate, we highlight for your consideration that short term changes (i.e. those within a one year period) in corporate bond rates are meaningless for users of the financials when evaluating the adequacy of our reserves and therefore should not be updated quarterly.

Liability for Future Policy Benefits—Participating Contracts

We do not sell participating contracts and, therefore, have no response to your outreach questions 7 through 12.

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 do not agree with the scope of the Proposed ASU for market risk benefits. The proposed scope places more emphasis on the form of the insurance/annuity contract than the substance of the contract. It is clear to us that limiting the scope to variable annuity and variable life insurance contracts backed by separate accounts would result in different accounting models for similar benefits when compared to insurance and annuity products backed by general account assets. This would create significant complexity to the financial statements and result in confusion within the user community.

The following are examples of current product offerings for which the proposed scope would result in meaningful and material differences in financial results:

- Variable universal life ("VUL") vs. universal life ("UL") products

  Both products provide a guaranteed death benefit for as long as the policy is in-force and have product features that expose the insurer to market risk (defined as proposed). For example, UL products with crediting rates tied to market interest rates may result in lower account values than initially expected increasing the net amount at risk to the insurer (i.e. the difference between contract's account value and the death benefit). Similarly, VUL products would also be impacted by changes (or lack thereof) in market interest rates. However, applying the Proposed ASU to VULs results in a significantly different measurement of the liability in the financial statements with VUL products measured at fair value and UL products measured using deposit accounting.

  This is further complicated by a recent trend in the industry whereby indexed account options exist within UL and VUL contracts. We believe the Proposed ASU would result in materially different measurements of the index option, the guaranteed death benefit and secondary guarantees (if any). Point-to-point indexed account options are considered embedded derivatives today. The Proposed ASU would bifurcate these embedded derivatives from UL contracts but not from VUL contracts, instead including the cash flows in the fair value calculation of the death benefit (a market risk benefit in the Proposed ASU).

- Variable annuity with guaranteed minimum death benefits ("GMDB") and guaranteed minimum withdrawal benefits for life ("GMWBL") vs. fixed indexed annuities with GMWBL

  Applying the proposed scope would result in material differences in measurement within an insurer's financial statements for GMDB and GMWBL benefits. For example, the variable annuity GMDB and GMWBL features would result in multiple market risk benefits within the same contract being aggregated and assigned a fair value. The fixed

indexed annuity GMWBL could either be an embedded derivative accounted for at fair value (with non-performance risk) reflected in net income, or, if the payments are all life-contingent, then accounted for using the benefit ratio approach. Either way significant differences in measurement would clearly confuse financial statement users.

We suggest the FASB add explicit guidance within Topic 944 that requires (a) life-contingent cash flows of long-duration insurance contracts to be measured using a benefit ratio or evaluated for profit followed by losses (currently described in Topic 944) and (b) non-life contingent cash flows (i.e. cash flows that are guaranteed to the contractholder regardless of whether they live or die) be measured at fair value. Such a change to U.S. GAAP would drive consistency across all long-duration insurance contract benefits, and specifically in the area of variable annuity minimum withdrawal for life guarantees (GMWBL). Our proposed change would result in measures that are consistent with that of today's guaranteed death benefits of universal-life contracts, nontraditional insurance contracts and other products with death benefits and reflect the embedded derivative nature of certain guaranteed non-life contingent benefits generated by GMWBL and guaranteed minimum account balance options. We do not expect any challenges in operationally implementing this change as several large variable annuity providers currently make this life/non-life contingent split in their fair value measurements.

If the FASB adopts our recommended approach, many of the measurement and transition concerns (highlighted in Questions 14 and 21) will be significantly mitigated. Companies that currently consider the aggregate GMWBL rider as an embedded derivative can easily exclude life-contingent cash flows from their current fair value models. This would alleviate the problems encountered when developing market consistent assumptions on a retrospective basis and the anticipated transition challenges.

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 do not believe it is operationally feasible to develop a fair value for in-force contracts with market risk benefits at transition as we are not able to obtain the historical assumptions and data elements necessary to accurately calculate the market risk benefit fair value at contract inception through transition date. Significant in-force contracts for us originated in the 1980s.

A few examples of data elements that are material and necessary to calculate fair values include (but not limited to):

- Identification of the underlying funds within the separate accounts invested in at each reporting period since contract inception;
- Fund mapping assumptions (meaning developing assumptions regarding what is the appropriate index the separate accounts should be mapped to);
- Accumulate all underlying fund expense ratios throughout the life of the contract which may be challenging as funds have merged with other funds or are no longer in existence; and
- Policyholder behavior assumptions since contract origination. These assumptions can be measured differently between fair value models and insurance models. For example, given the path dependent nature of these guarantees and the stochastic scenarios often used in fair value models, it is necessary to separately model a range of

policyholder behaviors. In contrast, for many actuarial insurance models, it is sufficient to model the average policyholder behavior.

In order to calculate a fair value of a market risk benefit (typically defined as a swap contract), we attribute contractual fees where the present value of future attributed fees less the present value of future benefits with risk margins equal zero at inception of the contract. The attributed fees are then 'locked-in' until a future contractual event would cause a renegotiation of the hypothetical swap contract. Currently there is diversity in practice amongst insurers, primarily driven by Big 4 accounting firm interpretations, under what circumstances, if any, an insurer can unlock the attributed fee and to what magnitude the unlocking attributed fees could occur subsequent to contract inception. We know of three different approaches in the event of post-inception contractual changes including (a) retaining locked-in attributed fee, (b) reset attributed fee to result in a zero fair value (i.e. new swap contract), and (c) unlock fees in a manner that the fair value of the asset/liability does not change (i.e. any change in the benefit cash flow would be equally offset by a change in the attributed fee cash flow).

We also would like to emphasize the unobservable nature of these fair value measurements. The unobservable nature of the fair value measure inherently places added challenges when evaluating whether the measurement is useful, meaningful and not overly complex. Valuing today's variable annuity embedded derivatives is extremely complex with numerous mathematical models with individually significant and insignificant unobservable assumptions used in the calculation. We believe there are supportable material inconsistencies within fair value methods and models within the insurance industry. Expanding the use of fair value to other products and guarantees will exacerbate the already complex nature of insurance companies' financial statements.

Continuing with the operability concerns of adding fair value for market risk benefits to the financial statements, we expect operational challenges around the impact to reinsurance accounting. We believe that it might be exceptionally difficult to account for certain reinsurance contracts that include both universal life and variable universal life contracts within the same reinsurance contract. As reinsurance contracts are expected to follow the accounting of the risks it covers (Proposed ASU 944-40-25-40), we are not clear on how to apply this guidance to a reinsurance contract that covers both market risk benefits (i.e. VUL) and other benefits (i.e. UL).

If FASB moves forward with the Proposed ASU, to assist the FASB in arriving at an appropriate measurement for market risk benefits, we specifically request comprehensive, end-to-end field testing of the market risk benefit fair value requirement beginning with evaluating insurers' ability to develop models and assumptions that would be calibrated to hypothetical market participants (as there are no or limited actual participants), continuing on to the auditability of those models and assumptions when no observable market data exists and ending with the usability of the resulting financial statements by the analyst community, including an evaluation of the comparability and consistency amongst the field testers.

Such evaluation of decision-useful information should also include a request by the FASB to the Big 4 public accounting firms to summarize, with sufficient details, the differences in fair value models, measurements and assumptions they have encountered over the years around the application of fair value accounting to GMWBL embedded derivatives. This would help the FASB to conclude whether fair value accounting in this area can be consistently applied by preparers and result in quality financial information.

Lastly as we look at some of the largest publicly traded variable annuity manufacturers, we believe it is common practice for insurers to exclude market impacts of embedded derivatives, and the associated hedging instruments, from GAAP net income to arrive at their non-GAAP operating earnings metric. This clearly demonstrates that management and the users of the financial statements find that the fair value measurement creates volatility that makes it difficult to understand the underlying business performance.

Beyond the general challenges with calculation of a market risk benefit fair value, we believe the various models for reflecting our own non-performance risk in the financial statements is unnecessarily challenging. We do not believe it is beneficial for a user of the financial statement to have to understand and evaluate the impact of non-performance risk for embedded derivatives in the income statement, market risk benefits and certain other financial liabilities in other comprehensive income. With various components spread throughout the financials, a user will be challenged in evaluating any asset/liability mismatch. While we do not recommend changes to investment accounting models, we do ask that all non-performance risk be reflected in OCI, including the non-performance risk impact on derivatives embedded in long-duration insurance contracts.

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?*

We agree with the FASB's decision not to extend the Proposed ASU to include investment contract acquisition costs amortized in accordance with Topic 310.

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 do not agree with the proposed amendments to amortization of DAC (and other balances that amortize in a pattern similar to DAC, including deferred sales inducement costs). Additionally, we believe there is an unintended consequence of the Proposed ASU. Currently, insurers amortize their cost of reinsurance over the period the underlying policies are in-force (ASC 944-605-35-14). Some insurers use estimated gross profit ("EGP") patterns to facilitate amortization of their reinsurance arrangements covering universal-life type contracts. We are not clear if the Proposed ASU would require insurers to continue applying their accounting policy of using EGPs to amortize their cost of reinsurance or should insurers change their amortization pattern to align with the Proposed ASU's DAC amortization pattern.

Simplification within the financial statements is only appropriate when it does not materially distort the economics of the business model. Due to the amortization patterns of the proposed approach, we believe the profit patterns generated from the simplified DAC model are not indicative of the overall economics of the acquired insurance contract and may result in the discontinuance of product offerings by some insurers. We understand the challenges preparers and users encounter with the current retrospective unlocking model for universal-life type contracts. We suggest the FASB pursue a prospective unlocking approach. This would reduce the complexity embedded in the financial statements by the retrospective unlocking model and increase the understandability of the resulting financial statement impacts. We believe pursuing a prospective unlocking approach simultaneously with pursuing a prospective unlocking of

future policy benefits would generate financial results that are easier to understand and would be more in-line with policy economics.

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 concur with the FASB's decision to eliminate the premium deficiency test should the FASB continue with the decision to unlock cash flow assumptions.

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 acknowledge rollforward of material balances may provide decision-useful information to the users of the financial statements. However, to the extent we may need to provide proprietary information, e.g. surrender rates assumed, crediting rate strategies, etc., we disagree with the details of the rollforwards. We would like to highlight that added costs, both operationally and from an audit perspective, should not be discounted and are relevant when evaluating the costs of the Proposed ASU in the aggregate.

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.*

See response to Question 4 – should the FASB retain existing U.S. GAAP for discount rates, we suggest adding a disclosure requirement for companies to disclose the range of discount rates used in determining the future policy benefit liability.

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?*

The changes within the Proposed ASU are material to the operations and financial reporting for insurers. The Proposed ASU will require, at a minimum, three years from the issuance of the standard to develop well-controlled actuarial processes and models and financial reporting controls, including significant system design, development and implementation, particularly around the market risk benefit and the retrospective unlocking if you proceed with the targeted changes. These changes should not be viewed as easy, nor should the implementation costs be viewed as anything less than significant. We would also like to highlight that the industry is faced with significant changes to statutory accounting (i.e. principle-based reserving and other actuarial modeling changes) all creating meaningful time commitments from a limited pool of professional resources.

In addition, we believe education will be necessary for all levels within our organization, including the Board of Directors, Audit Committee, and users outside of our organization

including that of rating agencies, buy- and sell-side analysts and debt holders. Companies may also want to revisit their risk management strategies, including hedging strategies and product suites as the expected profit patterns of products are expected to materially change possibly resulting in the redesign or discontinuance of product offerings. Please refer to our response to Questions 13, 14 and 21 for comments about the significant complexity introduced in an insurer's financial statements by the Proposed ASU on market risk benefits.

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?*

The transition method for market risk benefits is inoperable. We do not believe that a preparer of the financial statements can reasonably go back to contract inception to determine how a market participant (in a hypothetical market no less) would calculate a fair value or determine what assumptions to use to arrive at the appropriate attributed fee (or ascribed fee) that would result in a zero fair value at contract inception. It is impractical to believe that preparers would ignore the benefits of hindsight to estimate such assumptions.

It would be impractical to expect insurers to develop many of the historical unobservable market inputs necessary to calculate historical fair values. Implied volatilities at each interim period, non-performance risk assumptions particularly for periods occurring prior to the adoption of Topic 815 (formerly FAS 157) are just two examples of significant unobservable market assumptions necessary to calculate fair values of these instruments. Please refer to our response to Question 14 regarding the unnecessary complexity measuring market risk benefits at fair value inserts into the financial statements and solutions included within that response.

Additionally, please refer to our commentary on Q 2 regarding transition concerns relating to retrospectively unlocking cash flow assumptions.

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

See Question 21.

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.*

We have included our commentary regarding the significant costs that will be incurred as a result of the targeted changes throughout our comments to the individual targeted change questions. Please refer specifically to our comments on retrospective unlocking and market risk benefits for commentary on the costs.