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

Re: Proposed Accounting Standards Update (ASU), *Targeted Improvements to the Accounting for Long-Duration Contracts (Topic 944)*

Liberty Life Assurance Company of Boston ("we" or "the Company") a wholly owned subsidiary of Liberty Mutual Group Inc. appreciates the opportunity to provide the Financial Accounting Standards Board ("FASB") with our comments pertaining to the "*Targeted Improvements to the Accounting for Long-Duration Contract (Topic 944) – Exposure Draft*," ("ED") issued September 29, 2016.

We support the FASB's proposal to improve, simplify and enhance financial reporting requirements for long-duration contracts including the intent to create accounting consistency and transparency for preparers and users of the financial statements. Although we believe that the FASB took tremendous steps to improve the accounting for long-duration contracts within the proposed amendments, there are still multiple accounting models for different contracts. In order to further reduce the complexity within the ED, we believe that the FASB could expand the scope to unify the accounting for all long-duration contracts under one umbrella. In addition, we do have specific concerns with certain aspects of the ED as discussed below and within our responses to the Questions for Respondents in the Appendix.

Liability for Future Policy Benefit – Retrospective Update

We support the FABS's objective to improve the timeliness of recognizing changes in assumption updates annually or more frequently. We also support recognizing the effect of discount rate changes in other comprehensive income. We do not support updating cash flow assumptions retrospectively starting with the current reporting period all the way back to the contract inception date. Long-duration insurance contracts may provide insurance coverage over 50 years and applying assumption changes retrospectively would be onerous for the Company to maintain historical data and would not be easily understood by users of the financial statements.

With respect to long-duration participating contracts, the FASB's proposal would require insurers to include policyholder's dividends as part of updating cash flow assumptions. We believe this creates a general accounting mismatch as dividend scales are based on book yields of the underlying investment portfolio while the discount rate used to update cash flow assumptions (which would now include dividends) would be based on high-quality fixed-income investments. In addition, any change in the dividend crediting rate would act as a trigger to unlock assumptions retrospectively to update the net premium ratio. Under the proposed guidance, the effect of this assumption update would be recognized in net income while the changes in the discount rate would be recognized in other comprehensive income highlighting another accounting mismatch. We recommend a prospective approach to eliminate the accounting disconnect, eliminate the complexity for both preparers and users of the financial statements and allow companies to report on current data without changing historical views.

Updating Discount Rates

While we have no objections in using a high-quality fixed-income instrument yield to discount cash flows, we do have concerns around the unintended accounting mismatch it would create. We support the view of recognizing the effects of changes in the discount rate in other comprehensive income, as this is consistent with the accounting for assets that recognize changes in fair values through other comprehensive income, however, we have a concern with those assets that recognize changes in fair values through net income. As this would result in an accounting mismatch between the change in assets and liabilities, we recommend the FASB provide an option to account for the changes in the accounting for those backing the liabilities consistently.

Transition Date

The National Association of Insurance Commissioners ("NAIC") requires that Life Insurance entities implement the new principles-based reserving ("PBR") model by January 1, 2020. As PBR will be a significant cost and resource effort for the Company, a transition date in close proximity to 2020 would create an opportunity for efficiency in system design and implementation, however creates a significant resource challenge to implement both PBR and the ED simultaneously. We recommend a staggered implementation with the ED effective one or two years after the PBR implementation date to allocate and manage resources accordingly.

In addition to the comments expressed herein, we have also provided responses to the Board's questions in the appendix attached.

Sincerely,

Thomas Kalmbach
Vice President, Chief Financial Officer
Liberty Life Assurance Company of Boston

Russell Carlson
Vice President, Accounting Operations
Liberty Mutual Group

Appendix -Responses to Questions for Respondents contained in the Proposal

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 have no objections to the scope and scope exceptions of the proposed amendments.

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 that the effect of updating cash flow assumptions should be recognized in net income, we do not agree that cash flow assumptions should be updated retrospectively. Although there are some benefits to this approach, we believe there are significant challenges that are greater than the intended benefits.

Life insurance products are typically long duration in nature with coverage periods of 50 years or more, therefore updating cash flow assumptions retrospectively will require companies to make cash flow adjustments starting with the current reporting period all the way back to the contract inception date. We believe that the calculation will not only be onerous, but will create an additional layer of complexity for the users of the financial statements that will not be easily understood. We propose a prospective approach similar to the carryover basis described in ASC944-40-55-13C when determining cash flow assumptions at transition. This would be done on an annual basis each time we review and update assumptions. We believe this approach of updating cash flow assumptions will reduce the complexities involved with calculating the liabilities for future policy benefits and will allow companies to report current data without changing historical views. In the absence of a retrospective approach, we support the view to amortize deferred profit liability generated upon inception of a policy prospectively in proportion to the amount of death benefit or contract in force. This amortization method is consistent with the proposed amendment for deferred acquisition costs. A prospective approach would also create accounting alignment to the matching principle for the recognition of revenues and expenses which would now fall within the same accounting period.

For universal life-type contracts, we recommend that the liability includes both the policyholder account balance as well as a liability for future policy benefits calculated prospectively. The liability for future policy benefits could be positive or negative, but would be floored such that the sum of the policyholders account balance and the liability for future policy benefits would not be less than zero. This would create consistency with determining the liability for future policy benefits for traditional life insurance products. We believe that this approach would not only increase consistency, but would also remove the need for periodic profits followed by losses testing as it would be inherent in the calculation.

The prospective approach coupled with the additional disclosures would provide transparency to the users of the financial statements for changes in cash flow assumptions including the rationale for those adjustments and departure from those of past periods.

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 frequency of which we are to update cash flow assumptions in the proposed amendment.

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?

Generally, we agree that expected future cash flows should be discounted using high-quality fixed-income investment yields. However, for those liabilities that are backed by assets with significant unobservable inputs, there is uncertainty around what would constitutes a high-quality fixed-income instrument in those cases. This will create divergence in practice as entities apply their judgment and interpretation of the guidance in these instances. Therefore, we recommend that the Board add clarity around what constitutes a high-quality fixed-income security. We would support a definition that includes a basket of investment grade securities.

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?

While we agree that the effects of updating discount rate assumptions be recognized in other comprehensive income, we believe that there is an accounting mismatch between assets and liabilities when applying the discount rate assumption updates as stated in the Exposure Draft for certain asset classifications. A large portion of our liabilities are backed by securities that are classified as available-for-sale, therefore, the accounting for these assets are consistent with the way we would account for the change in the liabilities as these changes are recognized in other comprehensive income. We believe that these assets and the corresponding liabilities would be representative of the matching principle with an immaterial difference that would level out over time.

There is a concern however, in applying this guidance when the insurance liabilities are backed by assets with significant unobservable inputs where fair values may not be readily available and the changes in those fair values use a mixed measurement model. We currently have insurance liabilities that are backed by assets that uses a measurement model for which fair value changes are recognized in net income while the corresponding change in the discount rate used to measure the insurance liabilities are presented in other comprehensive income. This combination creates an accounting mismatch between the accounting for those assets and liabilities.

Given the fact that this accounting mismatch would add volatility in earnings, we recommend the FASB permit an entity the option to recognize the effects of changes in the discount rate in net income to be consistent with the accounting of the underlying asset. This could be accomplished by bifurcating the fair value changes of the asset portfolio and proportionately allocating only those amounts to net income. By doing this, we would create an equitable split between the amounts to be recognized in net income versus other comprehensive income and would better match assets and liabilities. We recommend further testing of this approach to avoid unintended consequences.

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 have no objections to updating discount rate assumptions on a quarterly basis.

Liability for Future Policy Benefits—Participating Contracts

Question 7—Scope: Do you agree with the scope of the proposed amendments on the accounting for the liability for future policy benefits for participating contracts, including closed block contracts issued by a demutualized insurance entity? If not, what types of contracts, contract features, or transactions should be included in or excluded from the scope and why?

Yes, we agree with the scope of the proposed amendments.

Question 8—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?

Generally, we agree that the effect of updating cash flow assumptions should be recognized in net income, however, we do not agree that cash flow assumptions should be updated retrospectively on these contracts. As discussed in question 2, there are some benefits in updating cash flow assumptions retrospectively, however, we believe there are significant challenges that are greater than the intended benefits.

As previously mentioned, life insurance products may have coverage periods of 50 years or more therefore updating cash flow assumptions retrospectively starting at the contract inception date would not only be onerous to maintain historical data, it would also make it more difficult for the users of the financial statements to understand. In addition to our expressed concerns noted in question 2, updating cash flow assumptions would now require us to include policyholder's dividends which is based on dividend scales estimated on an annual basis. The dividends scales are based on the book yields of the underlying investment while the discount rate used in calculating the liability for future policy benefits would be based on high-quality fixed-income instruments. Under this approach, there would be a disconnect between the assumptions used in estimating dividends and the discount rate for the same cash flows. In addition, we noted that any change in the dividend crediting rate would result in an update to the cash flows on a retrospective basis to calculate the net premium ratio, the effects of which are to be recognized in net income while the changes in the discount rate would flow through other comprehensive income, presenting an accounting inconsistency.

Consistent with our previous response to question 2, we believe that a prospective approach would be less complex for insurance entities to apply and easier to understand for the users of the financial statements. This approach coupled with the additional disclosures would provide transparency to the users of the financial statements for changes in cash flow assumptions including the rationale for those adjustment and departure from those of past periods.

Question 9—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 on an annual basis.

Question 10—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?

Generally, we agree that expected future cash flows should be discounted using high-quality fixed-income investment yields. In addition to our concern noted in question 4 around what constitutes a high-quality fixed income, we believe that using the assets' investment yields to estimate dividends and market rate for discounting cash flows will create an accounting mismatch between the liabilities and the assets that back them. This could result in fluctuations in the financial statements whereby it either creates an overstatement or understatement to net income in a declining or increasing interest rate environment respectively. Consistent with question 5, we believe that there should be an option to allocate these changes consistently to better align assets and liabilities.

Question 11—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?

In the aforementioned responses to questions around participating contracts as well as question 5, we do not have an objection to recognizing the effects of updating cash flows through other comprehensive income. However, we do have concerns around the general mismatch of assets and liabilities when applying different discount rates to the same cash flows. Refer to question 8 where this is discussed in details.

Question 12—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 have no objections to updating discount rate assumptions on a quarterly basis.

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 have no objection to the scope of the proposed amendment.

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?

Yes. We agree that all market risk benefits should be measured at fair value with changes in credit risk recognized in other comprehensive income.

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?

Yes. We believe that the scope of the proposed amendments should be expanded to include investment contracts to create consistency in accounting for deferred acquisition costs on all long-duration contact products.

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?

The proposed amendments for amortizing deferred acquisition costs would simplify the calculation, make it easier for a user of the financial statements to understand and believe that it is a significant enhancement to the current U.S GAAP guidance.

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?

No. We recommend impairment testing of deferred acquisition costs ("DAC"). The proposed amortization method could result in losses from DAC balances in excess of the present value of future gross profits. In circumstances where there are losses resulting from DAC that have been deemed unrecoverable, an impairment loss would be recorded for those balances. We recommend that the Board strongly consider a requirement for entities to perform a recoverability test on DAC assets similar to what is required under the current framework. This method would allow entities to update the remaining accounting balances to include partial surrenders in the DAC amortization calculation so that profits are sufficient to cover the related DAC.

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 are supportive of the transparency initiative by the FASB and are committed to improving our disclosures. While we note that the disclosures are extensive, we believe that it would create transparency and complement our recommendation for a prospective approach and would provide decision-useful information to users of the financial statements. We do not believe that it is useful to present separately the changes in the liability for future policy benefits into two tables outlining the present value of expected net premiums and the present value of expected future policy benefits. We believe that this would create an unnecessary level of complexity for users to understand. As such, we recommend that the FASB combine these two tables.

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 believe that the required presentation and disclosure information would provide sufficient information to the users of the financial statements

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 that will impact the timing of implementation are systems, processes as well as broader business drivers. For certain product lines, our actuarial systems are currently designed to value reserves on a seriatim basis, therefore, we would need to expand our capabilities to incorporate all product lines. In addition, our current systems do not have the capability to maintain historical data spanning the life of the contract and a one-time and on-going investment would be needed to maintain such data on a regular basis to meet the new financial reporting and expanded disclosure requirements.

We would also recommend a round of field testing prior to issuance of the final standard to ensure the intended result of adopting such a large scale change in accounting for long-duration contracts is fully understood and allow the FASB to incorporate any feedback that may result.

The National Association of Insurance Commissioners (NAIC) requires that Life Insurance entities implement the new principles-based reserving (PBR) model by January 1, 2020 and will be effective for statutory financial statements on January 1, 2017. PBR will be a significant cost and resource effort involving actuarial, accounting and numerous other resources across the entity therefore consideration must be given to this initiative when determining the effective date of this proposed guidance as similar resources will be involved in both efforts. We believe that it would be efficient for us to review system requirements for both projects simultaneously, however, implementation date should be staggered to allocate these costs and manage resources.

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 that the proposed transition provisions will be operable and strongly support an option for users to select either the retrospective approach or the carryover basis.

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

Consistent with question 18, we believe that the required disclosures at transition would provide useful information to the users of the financial statements.

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.

Although we are aware that there will be significant costs, both in implementing the guidance and on an ongoing basis, we cannot quantify the magnitude of those costs until we perform testing and further analysis of system capabilities. If we are to adopt the proposed amendments as stated in the Exposure Draft retrospectively, it would lead to significant ongoing costs of maintaining historical data over the contract duration which as previously stated may be over 50 years. A prospective approach is strongly recommended to lessen the cost while providing more decision useful information to users of the financial statements. Our primary one-time cost would be for a new valuation system. In addition, we anticipate that there will be an increase in resources at quarter-end to update assumptions and prepare the required disclosures to the financial statements.