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Ms. Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Dear Ms. Cosper:

Baker Tilly Virchow Krause, LLP ("Baker Tilly" or "we") is happy to present our commentary on the FASB Proposed Accounting Standards Update, "*Financial Services-Insurance (Topic 944)-Targeted Improvements to the Accounting for Long Duration Contracts"* ("ED" or "Exposure Draft").

Baker Tilly is a large public accounting firm, currently ranked number 12 in the United States with approximately 290 partners and 2,500 team members generally operating regionally, from Minneapolis to New York City. Our practice is varied, offering audit and assurance, tax and consulting services across a broad array of clients. We have a substantial practice in the insurance industry as we have the 6th and 10th largest health and property/casualty external audit practices per the January 2016 issue of AM Best Review.

Baker Tilly's approach was to analyze the ED through the eyes of smaller and medium sized life insurance companies some of which have different financial reporting goals and requirements and levels of accounting expertise than larger companies. Most of these life insurance companies are not SEC registrants nor do they have international financial reporting obligations.

We generally support the FASB in its attempts to improve accounting and financial reporting for long duration contracts recognizing the current inconsistencies in accounting between traditional life and universal life/not traditional insurance products and use and basis of assumptions in cash flow testing and future policy benefits. Our most significant concerns deal with certain implementation issues and ongoing compliance costs of this ED.

The following are some significant changes made in the ED that we support:

1). *Discount rate for non-participating contracts.* We agree that the discount rate based on a high quality fixed income rate (such as various AA bond rates) should be used to value current cash flows and should be reflective of the characteristics of the liability of the insurance contracts and not the yield of the issuing company's invested assets. This is consistent with other recent guidance issued by the Financial Accounting Standards Boards on valuation of pensions and other post retirement liabilities.

2). *Deferred Acquisition Costs*. Accounting for and disclosure of amortization of deferred acquisition costs for long duration costs has been unnecessarily complex for both the preparers and users of the financial statements. Simplifying the accounting for and disclosures of the amortization similar to short duration contracts will lead to better transparency in financial reporting and more consistency amongst the users.

The following are some significant changes made in the ED that we have some concerns with:

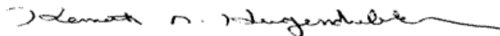
1). *Updating of assumptions for cash flow testing for non-participating contracts.* We agree that the "locking of" assumptions on SFAS No. 60 insurance contracts entered into a long time ago makes no sense given significant changes in mortality, investment yields and lapse rates of products. The difficulties in adopting these provisions for small and medium sized life insurance companies is: a) updating such assumptions on a retrospective basis in net income; and b) updating such assumptions on an annual or possibly a bi-annual basis. The costs are quite prohibitive for small and medium sized companies to accumulate data for contracts that may have been entered into 30 or more years ago. Many of these contracts are in a "run-off" status, managed by other companies and were originally administered on systems that are antiquated or are nor longer being used. Updating contract assumptions on an annual or bi-annual basis will add additional personnel and related systems costs. We would be supportive of a *prospective policy* of updating all new contracts on an annual basis which we believe to be more cost effective. We are supportive of allowing companies to update these assumptions at a time period different from the company's year-end along as long as it's done consistently each year. This is consistent with the FASB's requirements regarding the timing of goodwill and intangibles impairment reviews. We are not supportive of performing the updating of the assumptions more than annually given the costs of compliance.

2). *Disclosures*. We are supportive of requiring additional disclosures related to quantitative and qualitative information about significant inputs and judgments and assumptions used in the valuation of the cash flows as this will improve the transparency of the financial statements. We also support the additional disclosures relating to the rollforwards of the future policy benefits from beginning to the end of the financial reporting year which are similar to the requirements of short duration contracts. We are concerned about the level of disaggregation of these disclosures and the rollforwards of the future policy benefits. Too much disaggregation could lead to confusion caused by excessive disclosure and is an additional cost of compliance that small and medium sized insurance companies will have trouble absorbing.

We appreciate the chance to comment on this important ED. I can be reached at 717-319-5440 should the Board Members or staff like to discuss our comments.

Yours Truly,

Baker Tilly Virchow Krause, LLP



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