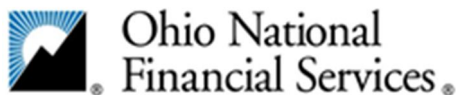


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Via email to director@fasb.org

December 15, 2016

Technical Director
File Reference No. 2016-330
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Comments on Financial Accounting Standards Board (FASB) Proposed Accounting Standards Update (ASU), **Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts**

Dear Technical Director,

Ohio National Financial Services, Inc. (Ohio National) greatly appreciates the opportunity to provide comments on the recently proposed accounting standard update regarding Targeted Improvements to the Accounting for Long-Duration Contracts.

Ohio National was originally founded as a stock company in 1909, converted to mutual company status in 1959 and ultimately reorganized as a mutual insurance holding company in 1998. The mutual insurance holding company is Ohio National Mutual Holdings, Inc.; the intermediate holding company is Ohio National Financial Services, Inc. Our product portfolio is diverse ranging from life insurance including participating whole life, term and universal life, individual disability income insurance and individual and group annuities. The majority of our product offerings are long-term in nature and, as such, we have offered protection to certain policyholders for over 90 years. Ohio National's issuing companies are highly rated by Standard & Poor's, AM Best and Moody's. Ohio National is considered a public business entity given certain products are registered with the SEC. For the year ended December 31, 2015, assets under management were approximately \$40 billion with \$2 billion in equity.

Ohio National commends the FASB targeted improvement efforts in updating the accounting for long-duration insurance contracts and we appreciate the opportunity to provide input. In general, Ohio National is supportive of improvements to the financial statements, including improved disclosures, for the benefit of users of the financial statements. However, the exposure draft as currently proposed results in wholesale changes to the accounting for insurance contracts and we fear the cost and effort to comply will not result in increased value for our policyholders or other users of our financial statements. We

understand the FASB's objective, as stated in the Basis for Conclusions, is to "improve, simplify and enhance the financial reporting requirements for long-duration contracts issued by insurance entities, thus providing financial statement users with more decision-useful information..." We believe the proposed changes will have unintended consequences that will result in increased financial statement volatility, lack of year-over-year comparability, complexity and cost that will not translate into more meaningful, comparable financial statements for the users, including our policyholders. Unlike publicly traded stock companies that seek to maintain a strong stock price (i.e., market/exit price), mutual companies are not looking to meet stock analysts' quarterly expectations. Instead, the way in which products are designed and the way the business is managed reflect a long-term strategic view. With additional user and preparer outreach to all segments of the industry (e.g., small, medium, large, stock and mutual companies), we expect the objectives of the FASB can be met without wholesale changes to the long-duration accounting model.

While we have addressed multiple questions from the exposure draft below, there are two areas in the proposal we would like to highlight that we believe will not provide more decision-useful information to readers of our financial statements. These include the proposed changes related to market risk benefits and deferred acquisition costs. We will also address the cost and complexities of implementation and ongoing activities.

- ***Market Risk Benefits***

- Issue

- After reading the Background Information and Basis for Conclusions section of the proposal and considering the FASB's objectives, we understand the main reasons for proposing these changes are to eliminate the diversity in practice (particularly with the guaranteed lifetime withdrawal benefit); to remove the disincentive for companies to hedge; and to simplify the accounting model for these guarantees. We would argue that a model which distinguishes life contingent from non-life contingent benefits is also appropriate when valuing a guaranteed benefit. The insured event or life contingency is a predominant component of the benefit calculation upon death (e.g., guaranteed minimum death benefit, or GMDB) or annuitization (e.g., guaranteed minimum income benefit, or GMIB), which is consistent with other insurance products with life contingent terms.

All guarantees on variable products do not share substantially similar risk and economics. If we consider the GMDB, while there is capital market risk inherent in the guarantee, a contract holder has to die for the beneficiaries to receive this benefit. There is no election that allows the contract holder to benefit from the inherent financial value of the contract. Similarly, longevity risk is a key component of the GMIB benefit and guaranteed lifetime withdrawal benefit (GLWB) where the product design does not provide for settlement at any point in time. Guarantees with life contingent features meet the definition of products with insurance risk and, therefore, should be valued as long-term obligations consistent with other insurance products.

In addition, we are concerned that the objectives of improving transparency and consistency for users of the financial statements will not be met if all guarantees are required to be measured at fair value. The assumptions and inputs used to determine the fair value for these guarantees will be based on unobservable inputs and, as a result, will be no more meaningful to reviewers of the financial statements. This could have the unintended consequence of creating more non-GAAP metrics and

increasing the time and cost required to prepare financial information for external users, which ultimately could negatively impact policyholders in the form of higher premiums.

Product Design/Strategy

Companies design products to align with their strategic vision, whether short-term or long-term. Features such as net settlement can be written into a product design, which results in fair value accounting as the benefits take on a current view. Many insurance companies enter this business with the philosophy that it is a long-term risk management business and the business model reflects this long-term view. We question whether there is a contradictory logic in the conclusions that market risk benefits should be measured at fair value while loans and debt securities (for which a fair value can be determined relatively easily) should be measured on the face of the financial statements at amortized cost when the business model is to primarily to hold those assets to collection. The proposed guidance forces companies like ours to be in the short-term risk management business and prescribe an exit value to long-term liabilities that is not appropriate for life insurance products. For those companies that would like to be in the fair value model, they have the option to design their products in such a way that is in the scope of ASC 815 model.

With the exception of guarantees that are designed with an embedded derivative component, we believe guarantees are long-term liabilities and should be measured as such. This is consistent with Statement of Financial Accounting Concepts No. 5 paragraph 67e, which states “Long-term payables are similarly reported at their present value (discounted at the implicit or historical rate), which is the present or discounted value of future cash outflows expected to be required to satisfy the liability in due course of business.” We believe the FASB is inappropriately looking to Statement of Financial Accounting Concepts No. 5 paragraph 67c for the measurement of liabilities that involve marketable commodities and securities, which is not the case for these guarantees.

Hedging

We can appreciate the idea that moving to fair value would remove the disincentive to hedge these benefits. As proposed, however, many companies will need to develop more robust hedging programs to help offset the volatility being introduced in the income statement. Further, even with highly sophisticated hedging programs, it is costly to hedge all aspects of the fair value of the benefit liabilities (i.e., interest rate risk, equity returns and volatility). The increased need for hedging these guarantees under fair value measurement will create significant costs for many insurers, and these costs represent actual cash spent for the purpose of minimizing non-cash income statement volatility. In addition, increased cash spent by the company for these costs could translate into increased costs for the policyholders. We struggle to find the benefit, specifically when we expect many users of the financial statements to adjust the effects of fair value accounting and hedging out of reported earnings as is done today (please see further discussion below on non-GAAP measures). Liabilities, under the existing model, change as the market changes. Markets are cyclical in nature and the proposed change will require that companies purchase interest rate hedges when rates are at all-time lows.

Disclosure

From a disclosure perspective, a likely downside of measuring these guarantees at fair value is the creation of non-GAAP measures. Internally, companies may review the performance of their

products by excluding the effects of the fair value fluctuations from reported income because the business is managed with the long-term view. What has not been determined is whether users and analysts will perform a similar analysis. In addition, significant fair value swings from one reporting period to the next could be misinterpreted by policyholders. For example, such short-term fluctuations are not reflective of the insurer's ability to meet long-term future benefit obligations.

In addition to the creation of non-GAAP measures, certain users of insurance company financials such as rating agencies have historically requested financials with and without application of new accounting standards. We fear the proposed changes would result in yet another set of financial information to maintain in addition to the statutory, GAAP and tax reporting already prepared regularly, with no tangible benefit. This could deter companies from reporting U.S. GAAP.

Another concern regarding the disclosure of the fair value for market risk benefits is that the fair value of the GMXB reserves will be based on level 3 fair value inputs. This will not meet the objective of comparability between companies as the fair value inputs are unobservable inputs and these inputs require varying levels of subjectivity, including policyholder behavior. Calculating a fair value for these guarantees will result in more time, cost and resources and we struggle to understand how this would provide added value for our policyholders.

- ***Simplification of DAC Amortization***

Issue

After reading the Background Information and Basis for Conclusions section of the proposal and considering the FASB's objectives we understand the primary reason for proposing these changes is to simplify DAC amortization and make it easier to understand. We would argue that the existing model with enhanced disclosures would be superior to the proposal. We would recommend additional user and preparer outreach in order for DAC to maintain its relevance and meet the needs of financial statement users.

Amortization

Under the proposed changes, deferred acquisition costs would be amortized in proportion to the amount of insurance in force, or on a straight-line basis if the amount of insurance in force over the expected term of the related contract cannot be reasonably estimated. Under the current model, insurers think of DAC similarly to the way manufacturing companies think of cost of goods sold. The DAC asset is linked to product cash flows and has future economic benefit over the life of the contract. It is very relevant in its current state. The current model is the best combination of relevance and reliability. Under the new proposal, the FASB is placing too much emphasis on reliability and simplicity to the detriment of relevance. As a result, the proposal would make it difficult for users of the financial statements to draw appropriate conclusions.

Recoverability

DAC is an asset and, consistent with other assets, should be subject to recoverability testing. Statement of Financial Accounting Concepts No. 5 paragraph 87 states, "An expense or loss is recognized if it becomes evident that previously recognized future economic benefits of an asset have been reduced or eliminated, or that a liability has been incurred or increased, without associated

economic benefits.” Consider a product where the contract holders can withdraw funds from their account balances. If for some reason a group of contract holders decides to withdraw a sizable portion of their account balances, the number of contracts in-force would remain the same; however, this could suggest that the DAC is not recoverable.

For amortization and recoverability of DAC, we recommend FASB undertake to create new footnote disclosure by iterative consultation with what users and preparers would find useful. These disclosures could include enhancements for more transparency around the premium deficiency calculation, disclosures related to changes in actual vs expected profit streams as well as disclosures specific to the rate of DAC amortization.

- ***Cost and time to implement considerations*** – We have serious concerns about the cost and time to implement the changes as proposed. The FASB considers these targeted improvements; however, these are significant changes to accounting models that have been in place for 30 years. Given that the existing models have been in place for many of the market ups and downs, we would ask for extensive field testing and adequate time to implement a standard of such a magnitude. In addition, we encourage the FASB to conduct outreach to the audit firms to better understand the level of effort required to audit the extent of changes, particularly those involving fair value measurements, as we expect this effort will be significant.

Insurance companies are experiencing an unprecedented level of regulatory projects in the coming years, including: Department of Labor fiduciary rule, principles based reserving, consolidation guidance, leasing guidance, revenue recognition, financial instruments classification and measurement, current expected credit loss model, short-duration insurance contracts, long-duration insurance contracts, continuous statutory reporting updates and increased expectations related to cybersecurity processes and procedures. As a result, insurance companies may explore ways to reduce this regulatory burden, which could include evaluating the necessity of continuing to produce U.S. GAAP financial statements and, instead, only produce financial statements in accordance with statutory accounting principles.

Like many companies, we are also in the process of updating administrative, general ledger and actuarial systems, all of which take away from the existing pool of resources needed to implement the proposed changes. Further, these systems will need to be configured to generate data needed to comply with the proposed standard. In addition to these incremental costs, the proposed standard introduces significant cost related to hedging, maintenance of several GAAP and non-GAAP accounting metrics, audit related activities and process/policy updates.

Given the extent of system, process and financial reporting changes required by the proposed changes along with the implementation of several other regulatory projects underway, we request an effective date four years following the date of issue, if the FASB moves forward with this proposal.

Conclusion

Overall, the proposed changes to the accounting for long-duration insurance contracts will result in an overhaul of the current accounting model. This will increase costs significantly for many insurance companies and give rise to new numbers in our financial statements without providing clear benefits for the users of our financial statements. We ask that the FASB consider the points we raise, especially related to the proposed changes to GMXBs and DAC, as the changes are not consistent with the long-term business model and asset/liability management that is the foundation of most insurance products. We believe the current model related to GMXBs and DAC is appropriate and enhanced disclosures could address the concerns driving the targeted improvements. We urge the FASB to conduct additional outreach to ensure the needs of the user community (including policyholders, rating agencies and analysts) are being met. We also ask the FASB to consider the extent of change and cost, both initial as well as ongoing, that the proposal will introduce when determining an effective date for the standard. Substantial investment in systems changes, as well as educating and retraining finance staff, management, regulators and other stakeholders will be required. Companies will likely need to hire auditors, IT consultants, and actuaries. New decision making and oversight processes will need to be developed. These costs will be real and significant, and this underscores the importance of articulating the ultimate goal to be attained by implementing such sweeping changes.

Again, we appreciate the opportunity to provide input into the Financial Services - Insurance (*Topic 944*): *Targeted Improvements to the Accounting for Long-Duration Contracts* proposal. Should you have any questions or would like to discuss the views in this letter, please contact us.

Sincerely,



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Senior Vice President and Chief Financial Officer



Rocky Coppola
Senior Vice President and Controller



Lori Dashewich
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