December 15, 2016
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.

Subject: File Reference No. 2016-330, Proposed Accounting Standards Update, *Targeted Improvements to the Accounting for Long-Duration Contracts* (Proposed ASU)

We appreciate the opportunity to provide feedback on the Proposed ASU. As a one of the largest multi-line insurers we have been following the Board's work to improve the accounting and reporting of both short-duration and long-duration insurance contracts since 2008 when it began working with the International Accounting Standards Board (IASB).

We supported the Board's decision in 2014 to pursue targeted improvements to the U.S. accounting and reporting models for insurance independent of the IASB upon concluding the existing accounting and reporting frameworks for short-duration and long-duration insurance contracts in place in the U.S. are fundamentally sound. Working from a fundamentally sound foundation, the Board has sought to identify "targeted" improvements to enhance the transparency of insurance accounting and reporting models to aid financial statement users' understanding of both product performance and the financial condition of insurers.

The principal concerns articulated by investors about the existing accounting and reporting framework for long-duration insurance contracts relate to the fact that the basic reserving model is tied to pricing and not current values and that subsequent information is not provided about the divergence between pricing assumptions and current values. We believe these investor concerns can be most effectively and timely addressed through disclosure of the difference between pricing assumptions and current values and the effect of those differences provided annually by major long-duration product, before and after aggregation. We believe a full set of expanded disclosures could be developed and implemented by January 1, 2019, as they largely involve information that already exists and is regularly subject to external auditor review.

In contrast to our recommendation, the Proposed ASU represents an alternative that would fundamentally change the long-duration insurance accounting and reporting model. As such, the Proposed ASU goes well beyond the notion of targeted improvements by introducing an entirely new long-duration measurement model that recognizes in comprehensive income (instead of expanded disclosures), short-term changes between pricing assumptions and current values. We believe the accounting and reporting model in the Proposed ASU would take at least 18-24 months to test and validate and another three years to implement, bringing us to January 1, 2022, before investor concerns would be addressed. More importantly, the new model would replace a carefully constructed, balanced, and fully integrated long-duration measurement model that historically has been determined to very effectively measure and report the performance of long-duration contracts with what is essentially a short-duration model that recognizes all short-term changes in long-duration insurance contracts in comprehensive income.

While we agree with the objectives the Board sought to achieve we believe the Proposed ASU does not achieve those objectives nor would it produce an accounting and reporting model that represents an improvement of the existing long-duration accounting and reporting model. In addition, the Proposed ASU adds substantial operational complexity to measuring long-duration insurance reserves, will be very expensive and time consuming to implement and administer, and equally difficult for financial statement users to understand reserve changes from period to period. For these reasons, together with the presence of a viable alternative, we believe the Board should consider completing a more substantial cost-benefit analysis to determine if it would be most beneficial to more expeditiously (i.e., 2019) address investor concerns through expanded disclosures rather than pursue the alternative in the Proposed ASU, which we believe could not be implemented before 2022.

In addition to our concern with the complexity of the proposed new reserve measurement model, we are equally concerned with the Board's proposed changes to the discount rate applied to long-duration insurance contracts and the method of amortizing deferred acquisition costs. While a more comprehensive discussion of our concerns is provided in the Appendix, our general concern is that the existing model, while it can be enhanced by additional disclosures, it is nonetheless a carefully constructed, balanced, fully integrated model that best represents the design, operation, and performance of long-duration insurance contracts in a manner that is most transparent to investors and other financial statement users.

In contrast to the existing integrated accounting and reporting model for long-duration contracts the Proposed ASU utilizes a building block approach that measures underlying key contract components on more of an independent versus fully integrated basis which is how the contracts are designed and managed. In addition, the complexity of the proposed measurements may not provide an enhanced level of transparency to investors and other financial statement users. For example, the periodic measurement of reserves would require at least three or more separate computations to determine the reserve change recognized in net income based on anticipated cash flow changes related to claims and claims adjustment expenses and the discounting impact to be recognized in other comprehensive income.

Our recommendation is to disclose the underlying components of the periodic premium deficiency evaluation which updates all locked-in assumptions to current best estimates to determine if a premium deficiency has been triggered; an evaluation that also involves grouping of products based on the method of acquiring, servicing, and measuring profitability to determine if an aggregated deficiency is triggered that must be recognized.

We recommend disclosing the details of the periodic premium deficiency evaluation in the form of a net sufficiency and then rolling forward the net sufficiency annually by the following components; mortality/morbidity margin, investment margin, and expense margin. The change in margins would be explained annually to provide the underlying details of what caused the change in the net sufficiency during the reporting period. We believe this would provide investors and other financial statement users with the information they desire about the amount of sufficiency remaining at the reporting date and how the sufficiency changes from period to period including what caused those changes in terms of mortality, morbidity, investment returns, and expenses. We note that these enhanced disclosures could be added to existing disclosures in a very expeditious manner without significant incremental cost. Thereafter the Board could determine if the expanded disclosures are sufficient to meet the needs of investors and other financial statement users or alternatively if modifications to the long-duration insurance contract accounting and reporting model are necessary.

In the event the Board decides to bypass the opportunity to leverage expanded disclosures and more expeditiously (i.e., by 2019) address investor concerns in the most effective, timely, and cost-effective manner, and move directly to fundamental changes in the long-duration measurement model, we believe the changes should be applied prospectively as opposed to retrospectively. More specifically, because the existing contracts were designed and sold with the existing accounting and reporting frameworks in place and have undergone decades of independent audits and reviews, we believe it is appropriate not to undermine previously reported amounts and instead adopt any modified accounting and reporting requirements on a prospective basis only.

We appreciate this opportunity to share our thoughts, including those set forth in the attached Appendix, and would be happy to make ourselves available for further discussions with the Board and Staff. In addition, we would like to participate in the Board's Roundtable that is scheduled to take place on March 15, 2017.

Sincerely,

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APPENDIX

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?***

Our preference is for the Board to take a two-stage approach to this project. In the first stage, which we believe could be made effective as early as the beginning of 2018, we propose expanded disclosures for long-duration insurance contracts as follows:

For each major product type:

- Disclose the amount of product sufficiency or deficiency existing at the report date.
- Provide an annual roll-forward of product sufficiency or deficiency by the following components:
  - Mortality/morbidity margin
  - Investment margin
  - Expense margin
- The change in margins shall be explained annually in terms of what specifically contributed to the changes that when aggregated represent the change in the net sufficiency during the reporting period.
- Major products shall be grouped pursuant to the requirements in ASC 944 based on the method of acquiring, servicing, and measuring profitability to determine if, on an aggregated basis, a net deficiency is computed which requires loss recognition.
- Using the same major product aggregations as used for premium deficiency testing, the reporting entity shall analyze the total annual returns to test for the presence of periods of profits followed by losses. In this situation the reporting entity shall determine the total amount of future losses anticipated and accrue a liability during the period of profits on a level basis to build a reserve sufficient to offset anticipated losses in their entirety at the date losses are projected to commence

We believe our proposal could be implemented in a very expeditious manner (i.e., by 2019) and could provide investors and other financial statement users with the information they desire about the amount of product specific and aggregated sufficiency remaining provided on an annual basis and how that amount changes, and the cause of the changes in terms of mortality, morbidity, investment returns, and expenses. We note that these expanded disclosures could be added to existing disclosures not only timely but also without significant incremental cost. Thereafter, the Board could determine if the additional disclosures are sufficient to meet the needs of investors and other financial statement users or alternatively if changes to the long-duration insurance contract accounting model are necessary; a process that we believe would not produce a new measurement model that could be implemented before January 1, 2022.

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?***

As set forth above, we support a two-stage process where no changes are made to the long-duration insurance contracts measurement model in the initial stage. The initial stage focuses on providing expanded disclosures. In the second stage, the Board, through interaction with investors and other financial statement users, would discuss the adequacy of expanded disclosures to meet

their needs for more information about long-duration insurance contracts, and where their needs are not being met, consideration would be given to the design and testing of measurement changes that may be necessary. We believe the proposal to update anticipated cash flows on a retrospective basis should be a stage two exercise that would take place only after the results of expanded disclosures are fully evaluated.

We note that the proposed change to the long-duration insurance contract measurement model would be very complex and expensive to both implement and to maintain on a prospective basis. As a result of the complexity, we believe robust field-testing of the proposal would be necessary and given the large variety of long-duration contracts that would be impacted, we believe the exercise would require at least one year to complete and additional time to evaluate as it is likely that external actuarial resources would need to be engaged to complete the evaluation.

Given the time (i.e., 5 years from development and testing to the anticipated 2022 effective date) and substantial cost associated with implementing comprehensive measurement changes to the existing long-duration insurance contract measurement model we believe a practical alternative to pursuing fundamental changes to the long-duration measurement model is to adopt our enhanced disclosure recommendation which we believe would meet the needs of investors and could be fully implemented by January 1, 2019.

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 support a two-stage process that focuses first on expanded disclosures before pursuing changes to the measurement model for long-duration insurance contracts. Assuming our suggestion is adopted, we would support updating those cash flow assumptions (or elements thereof) that cannot be adequately addressed through expanded disclosure on at least an annual basis or more frequently if determined to be necessary.

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 the provision of the Proposed ASU that would require expected future cash flows to be "discounted on the basis of a high-quality fixed-income instrument yield that maximizes the use of current market observable inputs" for the following reasons:

- The proposal would transform the measurement model for long-duration insurance contracts from one that is highly integrated and consistent with the manner in which long-duration contracts are priced, managed, and results are analyzed to one that is disaggregated in the manner of a building block model that is theoretical in nature. We do not believe moving from an integrated measurement model that is consistent with the way long-duration insurance contracts are priced and managed to a disaggregated theoretical approach meets the needs and objectives of investors and other financial statement users.
- The proposed discount rate is analogized to pension accounting and the proposed objective of determining the discount rate amount is described in a manner consistent with the pension measurement guidance. We interpret the guidance as targeting a "AA" rate of

interest which is lower (i.e., less risky) than the typical proxy for life insurance and annuity contracts which are typically backed by a portfolio in the "A" to "BBB" range.

We believe that discounting at the rate derived from the portfolio of assets supporting the long-duration insurance contract liability should be used as the discount rate which is consistent with current practice inherent in the highly effective existing long-duration measurement model as well as U.S. insurance regulatory requirements. Given the objective of financial reporting is to provide investors and other financial statement users with the most relevant and representationally faithful information upon which to base investment decisions, we believe there is no more relevant discount rate than that which is derived from the assets acquired to back the insurance contracts. We believe this provides the most transparent information to investors and other financial statement users about the performance of long-duration insurance contracts. In contrast, discounting at a theoretically determined liability-based rate that is not consistent with the yield on the portfolio of assets supporting the liability would not produce relevant, representationally faithful measurements upon which to base performance assessments. In addition, pursuing the development of a new comprehensive long-duration measurement would not allow a timely response to investor concerns as described herein.

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?***

While we understand the desire to alleviate the financial statement volatility caused by the measurement model in the Proposed ASU we believe the following:

- The volatility could be alleviated in the short-term if the Board were to follow our suggestion in terms of introducing disclosure changes ahead of any measurement changes that are ultimately considered necessary
- The mixed discounting model may not increase transparency for investors. More specifically, for cash flow changes, the Proposed ASU holds the original discount rate constant when determining the cash flow change to report in net income. The result of this exercise is also used to compute a new net premium ratio which is then used in the discounting exercise that applies the "high-quality" rate, the impact of which is reported in other comprehensive income as opposed to net income
- Despite external perceptions of the relative importance of net income versus shareholders' equity, we believe shareholders' equity to be the most critical measurement to insurers that write long-duration insurance contracts. The sufficiency of capital determines the solvency of the insurer and is a direct indication of the strength and stability of the insurer which impacts the insurer's continuing ability to sell insurance contracts and the investment return required by policyholders wishing to do business with the insurer.
- In addition to the preceding, writers of long-duration insurance contracts that are public companies typically trade as a multiple of book value which is impacted by changes in other comprehensive income.
- While it has been suggested that the proposal would not add substantial equity volatility on a net basis as changes in the current discount rate should be partially or largely offset by market value changes in fixed income securities held to back the long-duration insurance contracts that are designated as Available for Sale. While this is a reasonable presumption, substantial volatility in shareholders' equity may nonetheless arise as a result of there not being full symmetry in the offsetting balances which is more likely to occur in capital markets pricing.

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?***

Consistent with our two-stage proposal we would update the discount rate at each reporting date but only disclose (and not recognize) the impact unless the second stage evaluation determines it to be necessary to meet the needs of investors and other financial statement users.

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 believe the measurement of market risk related benefits should be determined based on the presence or absence of insurance risk (e.g., mortality, morbidity, etc.). Accordingly we would not apply the fair value measurement requirement to benefits that are triggered by insurance risk inherent in the contract that is more than minor. We would thus continue to apply the SOP 03-1 accounting model to benefit features that contain more than minor insurance risk.

Notwithstanding the preceding, we believe that for those insurers that wish to hedge benefits that fall within the scope of SOP 03-1, they should be allowed to make an irrevocable election to measure such benefits using a fair value option. This would allow greater symmetry between the hedged item and the hedging instrument. We believe this would best serve the needs of insurers and investors which would be able to better align the accounting with the management of these contractual components of long-duration insurance contracts.

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?***

Consistent with our suggestion above we believe that for contractual components measured at fair value either because, (a) they are accounted for as a derivative or (b) they are accounted for at fair value by virtue of electing the fair value option, the portion of periodic fair value changes attributable to the credit risk of the insurer should be reported in other comprehensive income instead of net 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?***

No. The amortization of investment contract acquisition costs for investment contracts should continue to be determined by Subtopic 310-20, *Receivables – Nonrefundable Fees and Other Costs* as this guidance is most consistent with the nature of these contracts.

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 support the proposed simplification of the amortization of deferred acquisition costs (DAC) as set forth in the Proposed ASU. Our primary concern is that the existing amortization frameworks [i.e., K-factor (amortization rate) applied to Gross Profits or Premiums as recognized] that are integrated with the product profitability formula will be replaced by a very simple methodology but not one that produces results that are indicative of the periodic product performance as is the case with Gross Profits and a percentage of Premiums.

In contrast to existing long-duration DAC amortization models that allocate expense in a systematic manner that proportionately corresponds to the recognition of Gross Profits or Premiums, the simplification proposal would exacerbate the volatility in reported results that is assured to occur with the Proposed ASU which abandons the matching principle underlying the existing long-duration accounting framework.

We are concerned that the "simplification" will lead to product performance results and measurements that need to be modified using non-GAAP measures to provide a meaningful run-rate performance measures. We believe that would be an unfortunate outcome if it occurred.

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 believe that DAC should be subject to impairment testing. More specifically, DAC should be recoverable either from Gross Profits or future Premiums. In the case of premium paying policies, the combination of the net premium ratio and the DAC ratio (i.e., present value of DAC/present value of Gross Premiums) should not exceed 100%.

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 not supportive of the proposed disclosure requirements in the Proposed ASU as they are developed around a new measurement model that we do not support. In contrast, we believe a two-stage approach to addressing the design of targeted improvements to the accounting for long-duration insurance contracts should be pursued. See our response to Question 1 for a more comprehensive articulation of our proposed stage one disclosures.

In the event you do not follow our recommendations but rather proceed with the disclosure requirements in the Proposed ASU, we have the following comments. The proposed disclosure requirements include many specific and detailed disclosures that we believe are excessive. For example, all of the proposed disclosures are required for interim and annual periods, whereas, we believe the disclosures should largely be limited to annual periods, relying on the existing requirements of ASC 270-10-50-1 for interim disclosures.

We believe the prior disclosures developed in SOP 03-1, now 944-80-50-1, should be retained instead of the proposed disclosures for additional liabilities, market risk benefits and separate

accounts. These disclosures were developed considering the specific product features and risks and provide the most meaningful information for investors and other financial statements users.

We believe disclosures of managing risks, including hedging activity, is more appropriate in the MD&A. More specifically, the hedging activity contemplated in the Proposed ASU typically does not qualify as an accounting hedge and therefore would not be presented in audited footnotes.

The proposed disclosures for the liability for future policy benefits include separate roll-forwards for expected future net premiums and expected future benefits and we are not certain this breakout provides meaningful information. More specifically, net premiums are not indicative of expected cash flows since they are only a portion of the gross premiums received from policyholders. We also do not believe the disclosure of undiscounted ending balances provides decision-useful information. In contrast, the disclosure of weighted-average duration provides insight into the expected life of the liabilities and we believe this is more meaningful.

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 our response to Question 1.

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?***

We believe the extensive changes proposed by the Board need to be comprehensively field tested and the field-testing results need to be carefully evaluated before a final ASU can be drafted and issued. We believe this process will take at least 18-24 months as it will likely require extensive use of outside actuarial resources and substantial internal resources to gather and validate substantial amounts of historical information that may reside on a variety of different mediums and systems. Upon completion of the field-testing work, the Board and Staff will likely have to revise the ASU and redistribute it for external review. Given the substantial changes to the measurement and disclosure model that are proposed, we believe the Board will need to provide a window between issuance and implementation similar to that provided for the Credit Loss ASU which was approximately 36 months. Accordingly on a combined basis we believe a reasonable anticipated effective date for the Proposed ASU would be January 1, 2022.

In contrast, if the Board were to follow our two-stage proposal is it not unreasonable to assume that by January of 2019 a full set of expanded disclosures could be implemented that would substantially address the issues raised by investors and other financial statement users without having to make substantial changes to the measurement and reporting model for long-duration insurance contracts.

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 do not support the proposed retrospective application of the Proposed ASU. Our view recognizes that long-duration insurance contracts typically remain outstanding for periods measured in decades. Accordingly, at the time of transition the existing book of business impacted

by the Proposed ASU may have an average age of 20-30 years. As a result, the cost of assembling, validating, and balancing the enormous amounts of information will be very time consuming and expensive. Moreover, it is unlikely that the information would not exist due to the nature of existing regulatory requirements which ensure that historical information remains available in the event it is needed to settle current claims or validate the settlement of prior claims.

In addition, we note that the existing population of insurance contracts were designed and issued to complement the existing accounting and reporting framework. As a result, not only would retrospective application be very expensive and time and labor intensive but would also result in the redetermination of financial statement measures for the existing book of business on a basis that is inconsistent with the accounting and reporting framework in place when the contracts were originally designed and issued.

As a result of the preceding, while we do not support the Proposed ASU, if it were to be adopted we do not believe it should be initially applied on a retrospective basis but rather a prospective basis.

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

See above – we are not supportive of the proposed Transition approach.