December 15, 2016

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2016-330

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update, *Financial Services - Insurance (Topic 944), Targeted Improvements to the Accounting for Long-Duration Contracts* (the "exposure draft"). We commend the FASB for its efforts to make targeted improvements to the accounting guidance for long duration insurance contracts. We believe that certain of these changes will simplify and improve financial reporting and thereby maintain or enhance decision-useful information for investors. However, we believe some of the proposals represent more fundamental changes to the existing guidance in Topic 944 and are inconsistent with the objective of making only targeted improvements.

DAC amortization

We support the Board's objective to simplify the amortization method for deferred acquisition costs (DAC) and other similar insurance balances. We understand that the Board is proposing changes to DAC amortization in light of both user and preparer concerns with the complexity and required retrospective adjustments of the universal-life insurance DAC model, as well as concerns with the inconsistency of the amortization model between product types. Based on these concerns, we agree that DAC amortization should be simplified. However, we believe the "ratable" allocation principle should be more clearly articulated in the guidance and have proposed some suggested language in our detailed responses to the Questions for Respondents. We also agree that DAC should not be subjected to an impairment assessment on the basis that it is viewed to be similar in nature to debt issuance costs.

The value of business in force (VOBA) asset or "other liability" that results from a business combination is not required to be amortized on the same basis as DAC, although in practice, depending on the specific facts and circumstances, the DAC amortization guidance is often used by analogy. In order to prevent diversity in practice, we believe the FASB should explicitly state whether existing business combination guidance (which notes that the VOBA asset or other liability should follow the measurement of the liability) should be maintained, or whether the DAC simplified model should be implemented.

Market risk benefits

We agree that market risk benefits, as defined in the exposure draft, should be measured at fair value. Today, these arrangements are accounted for under either ASC 815 or ASC 944, resulting in diversity in practice. The proposed guidance in the exposure draft recognizes the market risk inherent in these products and requires recognition and measurement on a basis consistent with other instruments that have market risk, such as derivatives accounted for under ASC 815. A fair value measurement for these liabilities may also better reflect the inherent economic relationship with the assets used to hedge them, which are also measured at fair value. We also agree with the Board's proposal that changes in instrument-specific credit risk be recognized in other comprehensive income, consistent with the Board's decision for financial liabilities that an entity elects to measure at fair value.

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Enhanced disclosures

We generally agree with most of the proposed disclosure requirements. In particular, we believe that users will benefit from the disaggregated rollforwards that will be required for the liability for future policy benefits and additional liabilities, policyholder account balances, market risk benefits, and deferred acquisition costs.

A few of the disclosures include information that, while potentially useful to investors, would be more appropriately included in a management's discussion and analysis (e.g., hedging targets), and thus should not be required in the notes to financial statements. Certain of the disclosures are redundant or conflict with information required by other standards, including disclosures related to hedging (ASC 815), fair value (ASC 820), and estimates (ASC 275). In addition, some of the proposed disclosures, for example some of the qualitative disclosures, are not warranted in interim reporting.

Updating of cash flow assumptions for non-participating traditional life insurance

The proposed guidance in the exposure draft that would unlock assumptions to reflect a more current view of an insurance entity's future cash flows appears to be intended to reflect a more "current liability" measure for the policy benefits. However, because the underlying model is still a net premium allocation approach, the liability is still not reflective of a current value for the benefits. As such, this approach does not sufficiently improve the measurement of the policyholder liability to warrant the extensive changes to systems and data that would be required to implement such an approach. The proposed model also produces income and expense that includes, by definition, a significant "out of period" component that is hard to understand -- in many ways similar to the problems with the current universal life DAC amortization model that the Board proposes to eliminate.

As an alternative to the Board's retrospective approach, we believe that requiring disaggregation at the product level for assessing a premium deficiency would increase the instances when assumptions are updated, focusing specifically on when it has the most significance to users (i.e., when potential losses exist) while avoiding the extensive costs and operational challenges of updating all assumptions each reporting period. To satisfy user requests for more current value information, the Board could require disclosures of gross cash flows, including updated estimates of the present value of both future benefits and future gross premiums.

Discount rate for non-participating traditional insurance

Conceptually, we agree that the discount rate should reflect the characteristics of the insurance contract liability. Insurance entities create value for their shareholders by generating a return on the funds received from their policyholders in excess of the cost of those funds. Thus, we believe the rate used to discount future cash flows should reflect the inherent economics of the liability -- a long term obligation subject to the investment risk and credit risk of the insurer. The use of a risk-free rate to discount the liability not only overstates the liability and understates the insurer's cost of funding in future periods, but it is also inconsistent with how non-insurance entities account for the cost of their funding. If the Board proceeds with the requirement to update assumptions, we recommend a discount rate consistent with the credit characteristics of the liability. A potential frame of reference for an appropriate rate could be, for example, the funding agreement market.

Alternatively, if there is a "day one" loss upon the issuance of an insurance policy as a result of using the Board's proposed discount rate approach, we recommend that the portion of the loss representing the difference between the funding rate and the proposed high-quality fixed-income rate should be treated similar to a debt discount and be recognized as additional interest expense over the life of the policy.

We agree that the effect of updating discount rate assumptions should be recognized immediately in other comprehensive income.

Participating insurance contracts

We share a general concern with the insurance industry that the proposal to use a single accounting model for both participating and non-participating traditional contracts would not appropriately reflect the fundamental differences in the underlying economics of these contracts. Participating contracts have unique characteristics that differ from non-participating contracts, which makes a "one size fits all" accounting model inappropriate. The effort it will take to improve the participating contracts model is substantial, as evidenced by the delays in the IASB insurance contracts standard. If the Board believes changes to this model are necessary, we believe it should be a separate project and not part of this "targeted improvements" project.

Transition and effective date

Many of the improvements will require significant changes to systems, processes, and controls, and likely require the accumulation of data that has not previously been captured. We recommend that ample time be given for entities to ensure that the necessary processes and internal controls are in place and for the historical data accumulation. We encourage the FASB to seek feedback from preparers on what they believe is the appropriate time needed to implement the proposed updates.

If the Board decides to proceed with the retrospective approach, we agree that retrospective application should be required for the proposed changes to the measurement of the liability for future policy benefits (with the proposed practical expedient) and for market risk benefits. We recognize that determining a component of the market risk benefit could be challenging. As a result, we suggest acknowledging this in the transition guidance, perhaps using language similar to the wording in proposed ASC 944-40-65-2 (d)(1)(i), which refers to using estimates of historical information derived from objective information. We agree with prospective transition for DAC amortization.

We also suggest that the FASB reconsider certain of the ASC 250-10-50 transition disclosures. Given the complex nature of the calculations for the impacted accounts, we believe it would be unduly burdensome to require the maintenance of dual measurement calculations in the year of adoption.

* * * * *

The appendix to this letter contains our detailed responses to the Questions for Respondents in the Exposure Draft, which includes additional observations and in some cases expands on our comments above. If you have any questions, please contact Patrick Durbin at (973) 236-5152 or Donald Doran at (973) 236-5280.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

Question 1: *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 agree that the scope of the proposed amendments on the accounting for the liability for future policy benefits should include traditional and limited-payment insurance contracts.

We also agree with the scope of the proposed revisions to ASC 944-40-25-9 that provide guidance on discounting amounts reclassified from the liability for future policy benefits to the liability for unpaid claims.

Question 2: *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?*

The FAS 60 accounting model for traditional life insurance products was designed to reflect expected benefit expenses as a level percentage of premium receipts each period and immediately reflect in income any deviation between actual benefits and expected benefits each period. As a result of this objective, it does not depict a measurement on the balance sheet of the present value of future gross cash flows. The FAS 60 measurement uses the net premium reserve method, which recognizes a balance sheet liability that is instead the accumulation of the portion of premiums received to date that the insurer expects to need to fund future benefits.

As discussed in the FASB 2013 exposure draft, the FAS 60 model differs from a current measurement balance sheet liability in several ways: 1) use of net premium method as discussed above is not a measurement of the present value of all future cash flows, only a portion of them, 2) assumptions are based on conservative assumptions at inception of the policy and not current unbiased assumptions, and 3) the discount rate used in determining the net premium reserve is not based on the characteristics of the liability. Under FAS 60, the liability is measured at current expectations of cash flows when a premium deficiency is reached at a line of business aggregation level.

Feedback to the FASB on the current measurement proposal in the 2013 exposure draft indicated that stakeholders did not think the increased volatility caused by quarterly assumptions updates represented the underlying economics of long-duration liabilities and that the current measurement proposal did not improve comparability with other industries' long-term liabilities. The 2016 FASB exposure draft notes that users nevertheless have raised concerns about the use of out-of-date assumptions to calculate the liability under current GAAP. The Board notes in BB35 that its goal is to provide more decision-useful information that more faithfully represents the insurer's obligation because it "gives users a more current view of an insurance entity's expected future cash flows…"

The proposed guidance in the exposure draft that would unlock assumptions to reflect a more current view of an insurance entity's future cash flows appears to be intended to reflect a more "current liability" measure for the policy benefits. However, because the underlying model is still a net premium allocation approach, the liability is still not reflective of a current value for the benefits. As such, this approach does not sufficiently improve the measurement of the policyholder liability to warrant the extensive changes to systems and data that would be required to implement such an approach. The proposed model also produces income and expense that include, by definition, a significant "out of period" component that is hard to understand -- in many ways similar to the problems with the current universal life DAC amortization model that the Board proposes to eliminate. The retrospective approach is also operationally more complex than the existing lock-in model or other unlocking models, requiring the accumulation and

maintenance of large amounts of historical data and establishment of cohorts, the level of which would likely result in diversity in practice.

As an alternative to the Board's retrospective approach, we believe that requiring disaggregation at the product level for assessing premium deficiency would increase the instances when assumptions are updated, focusing specifically on when it has the most significance to users (i.e., when potential losses exist) while avoiding the extensive costs and operational challenges of updating all assumptions each reporting period associated with implementing the proposed retrospective approach. To satisfy user requests for more current value information, the Board could require disclosures of gross cash flows, including updated estimates of the present value of both future benefits and future gross premiums.

If the Board nevertheless decides to pursue a model that updates cash flows on a regular basis for assumption changes, we acknowledge that another costly alternative, but much less so than the retrospective approach, would be a model that unlocks assumptions on a prospective basis. A prospective approach would recognize actual experience deviations in the current period and reflect changes in future cash flow estimates over future periods (absent a loss scenario). This alternative addresses the objective of lowering the premium deficiency level by requiring aggregation at the contract level and has the additional advantage of creating a systematic way to increase reserves over future profitable periods to prevent a "cliff" loss that can exist with a lock-in model. Absent a premium deficiency, it would also reflect both favorable and unfavorable changes in future cash flow estimates on a more timely basis than the lock-in model, resulting in more useful information to users.

Any approach that requires a change from a lock-in model to an annual or more frequent updating of cash flows, whether retrospective or prospective, would require significant changes in data and systems, as well as extensive user education. The FASB decided in 2014 not to pursue the current value model it had proposed in its 2013 exposure draft in favor of a focus on "targeted improvements." Further analysis by constituents has shown that if those improvements call for a model involving the updating of assumptions with revisions to net premium ratios, it is likely to be just as complex to implement and difficult to understand and explain.

In contrast, the 2013 exposure draft provided a current value model based on the present value of gross cash flows, which from a balance sheet perspective, is easier for users to understand and more consistent with other financial instrument valuations. Use of gross cash flows also provides more useful and intuitive information (and a better comparison with the related fair valued investment securities supporting the liabilities) when presenting the current value amount on the balance sheet using updating discount rates through OCI. The 2013 exposure draft's fulfillment cash flows, presented separate from the expected margin, provides a measurement closer to a current value/economic measure than a net premium approach. In addition, the existence of the explicit margin in that model provides useful information as to the future remaining profitability of the business. Therefore, if the Board decides that the updating of cash flow assumptions is a worthwhile endeavor, it should decide whether some version of a current value measured liability with transparent margins should be reconsidered or require footnote disclosure of the information.

Note that we have responded to Questions 3 through 6 below assuming that the Board decides to move forward with an updating of assumptions net premium valuation approach.

Question 3: *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?*

If the Board proceeds with the updating of assumptions through either a retrospective or prospective approach, we agree with the annual updating of cash flow assumptions at the same time each year or more frequently if actual experience or other evidence indicates that earlier assumptions should be revised.

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?*

Conceptually, we agree that the discount rate should reflect the characteristics of the insurance contract liability. Insurance entities create value for their shareholders by generating a return on the funds received from their policyholders in excess of the cost of those funds. Thus, we believe the rate used to discount future cash flows should reflect the inherent economics of the liability -- a long term obligation subject to the investment risk and credit risk of the insurer. This rate would depend on the duration of the liability as well as the credit standing of the liability.

The use of a risk-free rate to discount the liability not only overstates the liability and understates the insurer's cost of funding in future periods, but it is also inconsistent with how non-insurance entities account for the cost of their funding. To the extent there are other sources of profit inherent in the policy, the overstating of the liability from using a risk-free rate is absorbed by lessening the other margins. This may impact the timing of profit recognition but may not cause a day-one loss. However, when there are smaller other margins, use of the risk-free rate can cause a day-one loss. Consistent with the Board's thoughts about the conceptual underpinnings of DAC, we believe that a financial arrangement entered into between willing parties should not create a day-one loss or impairment.

Therefore, if the Board proceeds with the requirement to update assumptions, we recommend a discount rate consistent with the credit characteristics of the liability. A potential frame of reference for an appropriate rate could be, for example, the funding agreement market. Alternatively, if there is a "day-one" loss upon the issuance of an insurance policy as a result of using the Board's proposed discount rate approach, we recommend that the portion of the loss representing the difference between the funding rate and the proposed high-quality fixed-income rate should be treated similar to a debt discount and be recognized as additional interest expense over the life of the policy.

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?*

On balance, we agree, but have the following observations. The use of locked-in discount rates in the net premium reserve distorts the book value of an entity that has investments maintained to fund those contracts at fair value. This results in many entities using a non-GAAP measure, book value excluding accumulated other comprehensive income (AOCI). The current proposal would address this by requiring the change in the net premium reserve to be discounted using a current rate immediately, rather than retrospectively like other assumption changes, since fair value changes in the assets are recognized immediately. However, since the net premium reserve does not consider all future cash flows, the change in discount rate will not completely reflect the effect of changes in the interest rate on the future cash flows

of the insurer. We believe this may be another AOCI adjustment that would to be excluded from a non-GAAP measure of book value by entities, as opposed to using the new book value, since the net book value change will not solely reflect economic duration and basis risk differences.

Should the Board choose to require unlocking of all assumptions, we agree that the impact of discount rate changes should be recognized immediately in other comprehensive income, as opposed to net income, even though this adjustment does not reflect the entire economic impact of discount rate changes on insurance contract cash flows.

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?*

If the Board chooses to require unlocking of all assumptions, we agree that discount rate assumptions should be updated at each reporting date. This is consistent with the timing of updates in the value of available-for-sale debt securities or trading securities backing the liabilities.

Liability for Future Policy Benefits—Participating Contracts

Question 7: *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?*

We share a general concern with the insurance industry that the proposal to use a single accounting model for both participating and traditional non-participating contracts would not appropriately reflect the fundamental differences in the underlying economics of these contracts. Participating contracts have unique characteristics that differ from non-participating contracts, which make a "one size fits all" accounting model inappropriate. For example, requiring the use of a high-quality fixed-income instrument yield for the discount rate while at the same time requiring the use of best estimate dividend assumptions for measuring benefits included in the liability for future policy benefits will lead to measurement inconsistencies. In addition, participating contracts are more akin to variable rate instruments than fixed rate instruments, as changes in market interest rates change the investment component of future dividend cash flows. Given this, as discussed in the 2013 exposure draft, if dividends are included in the projected benefit liability cash flows, the discount rate used for income statement reporting should reflect the variable rate nature of the liability rather than a locked-in interest rate. The impact of instead using an "at inception" interest accretion rate is that changes in market discount rates will result in changes to expected dividend cash flows, but such cash flows will be discounted at the "at inception" rate rather than the updated rate for income statement measurement purposes, causing non-economic income statement volatility.

The effort it will take to improve the participating contracts model is substantial as evidenced by the delays in the IASB insurance contracts standard. If the Board believes that changes to this model are necessary, we believe it should be a separate project and not part of this "targeted improvements" project.

If the Board chooses to move forward in updating both the non-participating and participating models, we believe that closed block structures utilized by demutualized insurance entities should be excluded from the scope of the exposure draft as the experience of these contracts will generally not change cash flows to shareholders other than in remote scenarios that would be captured by premium deficiency testing. This renders the efforts needed to implement the new standard far in excess of benefits.

Question 8: *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?*

For the reasons expressed our response in Question 7, we do not recommend that the Board expand the scope of the exposure draft to include participating contracts. If the Board wishes to undertake changes to the accounting model, we recommend that it initiate a separate project.

Question 9: *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?*

For the reasons expressed in our response in Question 7, we do not recommend that the Board expand the scope of the ED to include participating contracts. If the Board wishes to undertake changes to the accounting model, we recommend that it initiate a separate project. However, we believe that our responses to Question 3 apply equally to both non-participating and participating contracts.

Question 10: *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?*

For the reasons expressed above in Question 7, we do not recommend that the Board expand the scope of the exposure draft to include participating contracts. If the Board wishes to undertake changes to the accounting model, we recommend it be a separate project. However, if the Board moves ahead with the proposal, as we observed in Question 7, the use of a high-quality fixed-income instrument yield for discounting purposes when the model also requires a best estimate assumption for the dividend obligation will result in an economic mismatch. Best estimates of dividend assumptions will likely be higher than the proposed discount rate, resulting in the overstatement of the future policyholder benefit liability and consequently the understatement of equity. To remove the economic mismatch, the discount rate and cash flow assumptions for the dividend obligation need to be aligned.

Question 11: *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?*

For the reasons expressed in our response to Question 7, we do not recommend that the Board expand the scope of the exposure draft to include participating contracts. If the Board wishes to undertake changes to the accounting model, we recommend that it initiate a separate project. However, should the Board move ahead with the proposal, as we observed in our response to Question 7, the unique characteristics of participating contracts are such that a change in market interest rates is the primary driver for changes in expected cash flows to policyholders. As a result, the discount rate used for income statement purposes should be consistent with the interest sensitive cash flows of the contract rather than recording the impact of all changes in the market interest rates in OCI.

Question 12: *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?*

For the reasons expressed above in our response to Question 7, we do not recommend that the Board expand the scope of the exposure draft to include participating contracts. If the Board wishes to undertake changes to the accounting model, it should initiate a separate project.

Market Risk Benefits

Question 13: *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 agree with the Board's decision to focus its targeted improvements on variable products offered through an insurer's separate account or similar structure. As a clarification, we believe the definition of market risk benefits could be enhanced by making the criteria in proposed ASC 944-40-25-25C (a) consistent with the descriptions in existing separate account criteria in ASC 944-80-25-2 (c) and (d), or explaining the intent of any differences.

Annuity and death benefit products offered through an insurer's general account that provide a return linked to equity and/or bond indices (and therefore have market risk unrelated to the debt host) include indexed annuity and indexed universal life insurance products (referred to in ASC 815 as "equity indexed" products). For payments not contingent on death, fair value accounting is already required (albeit the entire change in fair value is recorded through income rather than recognizing the change in the instrument-specific credit risk in OCI). For general account market indexed products linked to an insurable event, such as death or annuitization, any additional benefit not captured in the embedded derivative associated with a cash value would continue to be accounted for as insurance.
While we recognize that the current proposal creates an inconsistency between variable/separate account products and general account products, we do not believe there is significant diversity in practice for these products that would warrant a targeted improvement.

Question 14: *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 agree that market risk benefits, as defined in the exposure draft, should be measured at fair value. Today, these market risk benefit guarantees are accounted for under either ASC 815 or ASC 944, resulting in diversity in practice. While each guarantee feature has unique characteristics, all have some common market risks. We agree with the Board's proposal that these guarantee features should be accounted for consistently at fair value, using current market assumptions, with the effects of changes in assumptions (other than those attributable to a change in instrument-specific credit risk) recorded in income. The proposed guidance in the exposure draft recognizes the market risk inherent in these products and requires recognition and measurement on a basis consistent with other instruments that have market risk, such as derivatives accounted for under ASC 815. A fair value measurement for liabilities may also better reflect the inherent economic relationship with the assets measured at fair valued used to hedge them.

We also agree with the Board's proposal that changes in instrument-specific credit risk be recognized in other comprehensive income. We note that this is consistent with the Board's decision for financial liabilities that an entity elects to measure at fair value, which we understand was in response to investor concerns with an entity's recording of gains due to fair value changes triggered by declines in its own creditworthiness.

Deferred Acquisition Costs (DAC)

Question 15: *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?*

Given the Board's objective to only make targeted changes to the accounting for long-duration contracts within the scope of ASC 944, we do not believe the scope of the proposed amendments should be

expanded to include investment contract acquisition costs currently amortized under financial instrument accounting using the interest method. These types of investment contracts are appropriately classified as financial instruments and as such, scoping them into the ASC 944 targeted changes would increase the inconsistency in financial reporting with other financial institutions, such as banks, that issue similar products.

For some deferred balances, such as sales inducement assets and unearned revenue liabilities associated with universal life type insurance contracts, current guidance is explicit that amortization should be based on the same methodology/factors and assumptions used to amortize DAC. Therefore, these balances would be subject to the new proposed DAC amortization approach. We agree with utilizing the same simplified amortization method for these balances as for that used for DAC.

In contrast, the value of business in force (VOBA) asset or "other liability" that results from a business combination is not required to be amortized on the same basis as DAC, although in practice, depending on the specific facts and circumstances, the DAC amortization guidance is often used by analogy. Because the exposure draft does not include any explicit revisions to existing guidance that would require use of the simplified DAC amortization method for these balances, we believe that alternative amortization approaches, including using estimated gross profits or premiums as an amortization base, would still be appropriate. However, some entities may wish to adopt a more simplified approach to amortization, in line with the FASB's decisions regarding DAC.

Those supporting the view that an approach other than the simplified DAC method may be appropriate note that unlike DAC, VOBA does not represent the allocation of past expenses. Instead, it is one of the components required in the gross presentation of the fair value of future cash flow obligations acquired (with the other component being the GAAP liability determined using ASC 944 principles). ASC 944-805-35-1 seems to support this connection with the insurance liability, noting that the intangible asset (or other liability) should be measured "on a basis consistent with the related insurance or reinsurance liability."

Alternatively, others may view these balances as similar to DAC in that once determined, they are a fixed amount to be amortized. Under this view, the VOBA asset (or other liability) could be viewed as being eligible for the simplified DAC amortization model.

In order to prevent diversity in practice, we believe the FASB should explicitly state whether existing business combination guidance should be maintained, which notes that the VOBA asset or other liability should follow the measurement of the liability, or whether the DAC simplified model should be implemented.

Question 16: *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 understand that the proposed targeted improvements to the amortization of DAC are responsive to user and preparer concerns with the complexity and required retrospective adjustments of the universal-life insurance DAC model, as well as concerns with the inconsistency of the amortization model between product types. Based on these concerns, we agree that DAC amortization should be simplified. We acknowledge that the Board's choice of a straight-line method rather than a method better correlated to the economics of a financial instrument, such as an effective yield method, was a purposeful decision to reduce calculations subject to measurement uncertainty. While we note that rejecting a pattern of recognition based on a financial instrument approach, while analogizing to the debt issuance cost model to support the lack of an impairment test, results in some inconsistencies in principle, on balance we agree with the Board's decision to choose simplicity.

We believe the "ratable" allocation principle should be more clearly articulated. We suggest the following wording:

"Acquisition costs capitalized under paragraphs 944-30-25-1A through 25-1B shall be charged to expense on a ratable basis in proportion to the service or protection provided over the life of a contract. An entity should choose a reasonable measure of service or protection to meet this principle if the contract service or protection varies. Appropriate measures could include the face amount of death benefit, deposits made into an account balance, expected payments in a payout annuity, among others."

This wording would be helpful in situations in which coverage changes during the life of a contract, and allows for reasonable interpretations for different types of products. It would also approximate a seriatim result, in that if two contracts had different commissions because of differences in the amount of coverage, the DAC amortization amounts would differ.

Question 17: *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?*

In BC76, the Board analogized a long-duration contract to a financing arrangement to support why no impairment assessment needs to be performed on the DAC, as no impairment assessment is performed on deferred debt issuance costs under current GAAP. We agree that DAC should not be subjected to an impairment assessment on the basis that it is viewed to be similar in nature with debt issuance costs.

Presentation and Disclosure

Question 18: *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 generally agree with the proposed disclosure requirements. In particular, we believe that users will benefit from the required rollforwards. However, we believe that some of the proposed disclosures may not provide useful information to users or are otherwise not appropriate for financial statement note disclosure, as described below.

A few of the disclosures include information that, while potentially useful to investors, would be more appropriately included in management's discussion and analysis, and thus should not be required in the notes to financial statements. One example is the requirement to disclose the "weighted-average earned rate" (undefined, but presumably meant as a reference to some grouping of investment assets supporting general account products) and the weighted-average crediting rate (of the insurance account balance liabilities). It appears that the objective of this disclosure is to provide investment spread information, which is not typically a requirement in financial statement notes. In addition, the terms are not defined and their determination would involve significant judgment, as well as potentially requiring an explanation of the results, which is more in the nature of financial statement analysis rather than reporting or disclosure.

In addition, we do not believe it is necessary to include in ASC 944 a requirement to provide qualitative and quantitative information about objectives, policies, and processes for managing risk arising from market risk benefits, including hedging activities. We believe that the disclosure requirements in ASC 815 should be the governing disclosure guidance for all entities, including insurers. Please see our comments relating to the proposed updates to the hedge strategy disclosures in our November 4, 2016 response to the FASB's proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815),* in which we describe the rationale for our disagreement with certain proposed disclosures.

Under the current proposal, market risk benefits will be required to be measured at fair value, and as such, it would seem that the types of information required to be disclosed should be consistent with the fair value disclosure requirements in ASC 820-10-50. It is unclear why new disclosure requirements are being proposed, rather than referencing ASC 820-10-50. In addition, the illustration in proposed ASC 944-40-55-29G is at a lower level of granularity than the requirements in ASC 820-10-50-2(c). We believe that disclosure requirements for Level 3 measurements should be consistent for all entities and are concerned that even though presented as an illustration, rather than a requirement, this detailed rollforward may be looked at as an implicit requirement.

We believe that it is important to provide details of separate account investments only for those contracts on which there is a guarantee (i.e., a market risk benefit) because the nature of the guarantee is affected by the nature of the investments in the separate account. Therefore, we do not agree with the proposed revision to ASC 944-80-50-1(e) that expands the requirement to disclose the fair value of separate account assets, by major investment category, to all separate accounts. For those separate accounts without a guarantee, the contract is a pass through whereby the contract holder has all of the risks and rewards of the assets, and thus disclosure of the types of assets comprising the separate account are not relevant to the consolidated financial statements of the insurer (but are relevant to the individual separate account fund financial statements).

With regard to the requirement to disclose various inputs and assumptions for the liability for future policy benefits and other insurance benefits, we believe it would generally be useful to compare certain financial assumptions between entities. However, it will be a challenge to develop meaningful disclosures for non-financial assumptions that can be compared across entities.The requirements to provide ranges and weighted averages of significant inputs may not result in useful information. For example, mortality and persistency rates are both significant assumptions but a range and weighted average of these rates would be meaningless given that the ranges would be wide and the weighted averages would be equally challenging to interpret and compare among insurers. We recommend that this disclosure be limited to financial information.

For those contracts with annuitization, death, or other insurance benefits for which an entity did not recognize an additional liability because no future losses are expected, we believe that the disclosures are too detailed and thus may obscure other useful information. We believe that the requirements of ASC 275-10-50-8 regarding disclosure of significant estimates are sufficient.

We note that ASC 944-40-50-6 requires disclosure of the amount of any related reinsurance recoverable, which we agree is useful information. However, the example in ASC 944-40-55-29E currently presents this line item as a component of the table that ultimately is subtracted from the liability rollforward. Given that GAAP requires that the reinsurance recoverable be separately presented as an asset (rather than as a deduction from the liability), we suggest that the illustration be revised to present the reinsurance recoverable asset as a separate balance.

The proposed ASU requires that various qualitative and quantitative disclosures be made both for annual and interim reporting periods. We believe that with the exception of the rollforwards, interim disclosure requirements should be governed by ASC 270.

Question 19: *Are there any additional presentation or disclosure requirements that would provide decision-useful information? If so, please describe them and explain why.*

We have no suggestions on any additional presentation or disclosure requirements.

Effective Date and Transition

Question 20: *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 amount of time necessary to implement the proposed updates will depend on the provisions of the final standard. Many of the improvements will require significant changes to systems, processes, and controls, and likely require the accumulation of data that has not previously been captured. We recommend that ample time be given for entities to ensure that the necessary processes and internal controls are in place and for the historical data accumulation. We encourage the FASB to seek feedback from preparers on what they believe is the appropriate time needed to implement the proposed updates.

We also note that insurance entities will be implementing other standards over the next several years, including those relating to the accounting for financial instruments, revenue, and leases. We encourage the FASB to consider the impact of the adoption of all of these standards when determining an effective date.

We support giving nonpublic entities additional time to implement the guidance and learn from the experiences of public entities. However, we believe the Board should give nonpublic entities the ability to early adopt the final standard with the same early adoption restrictions, if any, proposed for public entities.

Question 21: *Are the proposed transition provisions operable and do they provide decision-useful information? If not, what would you recommend and why?*

If the Board decides to proceed with the retrospective approach, we agree that retrospective application should be required for the proposed changes to the measurement of the liability for future policy benefits, with the proposed practical expedient in the event retrospective adoption is impracticable. We understand that retrospective application could be challenging and in some cases impracticable, as it will require the accumulation of detailed historical information, including information relating to terminated contracts, dating back to contract inception.

We agree with retrospective application for market risk benefits, which will require fair value measurement of these benefits on the transition date. This fair value measurement will typically require the estimation of two basic cash flow components of the calculation, the present value of future expected benefits and the present value of expected attributed fees. We believe that the determination of the attributed fee could require estimating the attributed fee as a percentage of total expected fees based on the best information available at the transition date. The FASB should consider acknowledging this in the transition guidance, perhaps using language similar to the wording in proposed ASC 944-40-65-2 (d)(1)(i), which refers to using estimates of historical information derived from objective information.

We agree that the revised DAC amortization model should be applied prospectively to the DAC balance (and all other balances that are amortized on basis consistent with the amortization of DAC) on the transition date, adjusted for removal of any amounts in AOCI relating to "shadow DAC" (and other similar balances). Prospective application is consistent with other changes in accounting relating to revised amortization patterns for nonfinancial assets under ASC 250-10.

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

For the liability for future policy benefit-related balances and market risk benefit balances subject to retrospective adoption, we do not believe that the disclosure requirement in ASC 250-10-50-1 (b)(2) relating to the “current period” portion of the year of adoption and those in ASC 250-10-50-3 relating to interim period disclosures should be required. These disclosures would require that in the year in which the guidance is adopted, financial information on the new as well as the old bases of accounting be maintained (or in the case of prospective application, created for prior periods). Given the complex nature of these calculations, we believe it would be unduly burdensome to require the maintenance of dual measurement calculations in the year of adoption. For balances subject to prospective application (i.e., DAC and related balances amortized consistent with DAC), we believe ASC 944-10-50-1 (b)(2) and ASC 944-10-50-3 should not be required, given that it would require dual calculations for the current period and retrospective calculations for the prior periods. In the 2013 exposure draft, the Board had similar exclusions, noting in BC428 that “…an entity should not be required to disclose the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the period in its annual or interim financial statements in which this proposed Update is effective. In the Board’s view, the cost of providing this disclosure, which would include the running of parallel systems, would outweigh the benefits.”