SOUTHEASTERN
LOUISIANA UNIVERSITY

September 20, 2019

52 Garrett Hall – SLU 10468
Department of Accounting and Finance
College of Business
Southeastern Louisiana University
Hammond, LA
70402

Technical Director, File Reference No. 2019 -760
Financial Accounting Standards Board (FASB)
401 Merritt 7
P O Box 5116
Norwalk CT
06856 – 5116

By email to director@fasb.org

RE: Solicited Comment on the
***Proposed Accounting Standards Update* Issued August 21, 2019 on**
"FINANCIAL SERVICES – INSURANCE (Topic 944)"

Director:

Thank you for this opportunity to comment on this proposed amendment to GAAP.

The comments and discussion contained in this letter reflect my personal views only. They are not meant to reflect the views of my colleagues, my department, my college nor my university, nor do they reflect the views of our governing authority, the state of Louisiana and its agencies.

The proposed amendment has the principal effect of deferring the effective dates of ASU No. 2018 – 12: *Financial Services – Insurance (Topic 944) Targeted Improvements to the Accounting for Long-Duration Contracts.* This was summarized in the FASB's Media Advisory dated 8/21/19 which accompanied the release of the proposed amendment.

I am in general agreement with the proposal, subject to a request. I share the beliefs of FASB Chairman Russel G. Golden that the proposed deferral "will result in a higher quality implementation for all."

QUESTIONS and ANSWERS

As to the questions posed, my answers are below:

Question 1 – Effective date for larger public companies: **Answer: YES.**

Question 2 – Effective date for entities other than larger public companies: **Answer: YES.**

CONTINUED

QUESTIONS and ANSWERS (Continued)

Question 3 – Interim periods for entities other than larger public companies:
Answer Part 1*: *Select from two choices

The amendments in this case should be *"effective for interim periods within the years **after** those amendments are effective for annual periods ..."* (***emphasis added***).

(I select the first of the two choices offered.)

Answer Part 2*: *Please explain why

"[E]ntities other than larger public companies" face binding constraints on resources for such implementations more so than other entities. Such constraints may limit their investment in the necessary actuarial and accounting resources needed to deliver the outcome expected by the FASB. Such entities, as an industry matter, are more often "practice and resource followers" rather than leaders. They adopt new items (standards, procedures, and sometimes tools) with greater efficacy ***after*** those items have been developed in the public sector or by industry members with superior resources.

The postponement resulting from this choice will further support these entities' efforts and increase the likelihood of "a higher quality implementation." The likelihood of a hoped-for "high quality" outcome more-likely-than-not outweighs any possible disadvantage from any short-term information shortage that the postponement from this choice might cause.

REQUEST

*Would the Board kindly consider further examination of **discount rates** used for various measurements on long-duration insurance contracts of this kind, including their reserves? What are those rates, how were they selected and how should they be disclosed?*

All these subsidiary questions arose in previous deliberations. I am requesting that the Board's discussions be refreshed.

Paragraph BC4 of the Background Information and Basis for Conclusions in the *"Proposed Accounting Standards Update,"* issued August 21, 2019 reported investors' and others' feedback "that the amendments in Update 2018 -12 are expected to be a significant improvement to the accounting for long-duration insurance contracts by improving the timeliness of ***assumptions*** underlying insurers' reserves, enhancing disclosures, etc." (***Emphasis added***)

My request focuses on the **discount rate** used as a critical assumption to such measurements, the recognition of the resulting accounting items, and the related disclosures in general.

CONTINUED

Professor Louis Le Guyader **Comment to the FASB on Proposed Amendments to ASU No. 2018 -12**

REQUEST (Continued)

The choice of **discount rate** remains largely left to the reporting entity, bounded by characteristics specified in the ASC. The actuarial discounting process results in estimates using these **discount rates,** and the estimates are used for accounting. The actuarial process in the case of long-duration insurance contracts is applied to significant time horizons.

The estimate of time itself remains one of the most risky.

Those time horizons are frequently not supported by underlying capital markets price discovery. The market information that would support, or substantiate, a **discount rate** choice may not exist, or may not be sufficient.

These risks can reduce the quality of the resulting accounting in so far as its representational faithfulness. The **discount rate** assumption, and how it is disclosed, can be challenged with regards to the factors of comparability, verifiability and understandability. (See Statement of Financial Accounting Concepts No. 8, Chapter 3, QC 4 – 32).

My belief is that users of financial statements would respond positively to any additional spotlight on, and reconsideration of, this issue. I hope the request will be considered.

\- - -

I would be pleased to discuss this comment, if requested. Thank you very much for this opportunity.

Sincerely,

Louis Le Guyader

Louis P Le Guyader, Ph.D.

Associate Professor

louis.leguyader@selu.edu