February 11, 2011

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH, United Kingdom

Ms. Leslie F. Seidman, Chairman
Financial Accounting Standards Board
401 Merrit 7
Norwalk, CT 06856-5116

Re: Insurance Contracts – IASB Agenda reference 3C and FASB Agenda reference 58C

Dear Sir David and Chairman Seidman:

The American Council of Life Insurers (ACLI) and the Group of North American Insurance Enterprises (GNAIE)[1] would like to express our concern along with specific rebuttals to the staff paper submitted as Agenda Item 3C(IASB) and 58C(FASB) for the February 2011 joint IASB/ FASB Board Meeting. The agenda paper addresses the potential use of a locked-in discount rate within the building blocks. While there has yet to be a formal proposal put forward by industry, there is currently an effort being made to create a business model approach that will recommend locking in the discount rate for certain insurance contracts. The industry believes that a locked-in discount rate for non-interest sensitive contracts managed with a matched portfolio of assets held at amortized cost will provide meaningful operating results; will put insurance entities on a level playing with other financial institutions such as banks; and will address the concerns of analysts and regulators (key users of insurance company financial statements) regarding volatility. The use of a locked-in rate will also address additional concerns of the user community, by allowing them to analyze underwriting and investment results without the noise created by the fair value changes in assets and liabilities

The staff has concluded that a locked-in discount rate is not appropriate and has based that conclusion on several arguments that we believe are fundamentally flawed. We believe that the staff analysis is flawed both in terms of the facts and in the understanding of the insurance business model. For these reasons, we believe it is important that the IASB and FASB be presented with the industry views regarding some of the staff conclusions and have addressed those views herein. The following presents the staff views, as expressed in the agenda paper, along with our response to those views.

Preparer-only Concern

Staff View: The agenda paper expressed in the "Background to the proposal", paragraphs 5 and 10, that locking in the discount rate is mainly a preparer concern and a preparer

[1] The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90% of the assets and premiums of the U.S life insurance and annuity industry. GNAIE consists of Chief Financial Officers of leading insurance companies including life insurers, property and casualty insurers, and reinsurers. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations.

recommendation. The paper states that users responded that they did not agree with a locked-in proposal.

Response: The user community, in particular the analyst community, has made it abundantly clear that they do not want noise from unlocking interest rates to interfere with operational analysis. They have also made it clear that duration mismatches could be disclosed just as effectively in the notes and it is not necessary for them to be on the face of the balance sheet or in the income statement. Specific to the feedback that was received through the comment letters and the Public Roundtables, reactions from users were generally mixed on the idea of a locked-in of the discount rate. At this time the concept of a locked-in discount rate has not been adequately vetted with the user community and it is premature to suggest that there is even moderate opposition to it for the limited liabilities we are proposing.

Use of the Fair Value Option
Staff View: The agenda paper, paragraph 11, suggests that the use of the fair value option (FVO) is available and should be used to address the industry's concern regarding asset liability mismatch.

Response: We believe that the fair value option is best used in circumstances when either an unavoidable mismatch exists or when it represents a superior measurement basis due to management's intent with regard to the use of the financial instrument. We strongly disagree with the belief that broad use of a FVO that is created by a significant asset and liability mismatch is an appropriate approach to standard setting, especially when fair value is not deemed to be the valuation basis that best aligns with management's approach to managing the business. In addition, this solution to reducing accounting mismatches for insurers would create serious competitive imbalances, as other financial institutions with whom insurers compete with for capital and in financial markets would continue to use amortized cost for reporting many of their financial assets. Forcing insurers to use a fair value option also creates a perception that fair value is somehow superior to other attributes which are permitted for reporting financial asset values.

Analogous Accounting to Financial Instruments
Staff View: The agenda paper expressed the view, in paragraph 13, that insurance contracts do not share enough characteristics of financial assets or financial liabilities carried at amortized cost to support accounting for them at cost. They reference variability of cash flows as the primary reason for this.

Response: While we understand the need to separate cash flow volatility arising from credit losses for purposes of determining the use of amortized cost for financial instruments, we believe it is inappropriate to exclude them when comparing insurance contracts to financial instruments. The agenda paper suggests that insurance contracts have too much variability of cash flows to be analogous to financial instruments accounted for at amortized cost. We disagree with this view and believe that when viewed on a pooled basis, non-interest sensitive insurance contracts have cash flows that are as predictable as the cash flows of financial instruments carried at amortized cost (when considering all cash flows including credit). Actuarial analysis can provide estimates that are more accurate than estimates of pre-payments on financial instruments, which are tied to current economic environments. Further, the variability of non-interest sensitive insurance cash

flows is addressed though projecting cash flows using current assumptions, i.e., cash inflows, cash outflows and margins, not through the discount rate.

The management approach to insurance contracts is more consistent with the approach of financial instruments carried at amortized cost. The business model for many insurers (principally life insurers) is predicated on matching asset and liability cash flows. Relevant reporting of such business on the basis on which it is managed requires consistent reporting of asset and liability values. We agree with staff that these insurance contracts are fundamentally different than financial instruments carried at amortized cost. However, we disagree that these differences dictate that they shouldn't still have the same or similar accounting basis. In fact because both are managed with a similar approach, we believe that they should be measured on a similar basis.

Better Analogy is Contingent Liability
Staff View: The agenda paper, paragraph 29, suggests that insurance contracts share more similarities to contingent liabilities than financial instruments carried at amortized cost and use that view to conclude that an IAS No. 37 approach is more appropriate than an IFRS No. 9 approach.

Response: On a contract basis, we can understand the staff view on this issue. However, there are key differences in the understanding and management of insurance contracts when compared to contingent liabilities. Contingent liabilities generally emerge on a standalone basis making valuation difficult. In addition, contingent liabilities are rarely supported with asset cash flows due to their lack of predictability. Insurance contracts are managed on a portfolio basis (similar to financial instruments) and the cash flows at the portfolio level are generally predictable and most often managed with a portfolio of assets with matched cash flows. For that reason, we suggest a business model approach such as that provided for financial instruments.

Options and Guaranteed within Insurance Contracts
Staff View: The agenda paper states, in paragraph 28, that because IFRS does not require the bifurcation of many of the guarantees and options contained within insurance contracts, this would represent a significant flaw with the locked-in interest rate approach.

Response: It is unclear to us why staff believes the locked-in discount rate exaggerates this issue. To the extent that all non investment related cash flows are unlocked with current best estimate assumptions (including the cash flows associated with options and guarantees), we believe that the value of these provisions are sufficiently accounted for within the building blocks. Moreover, to the extent that the options or guarantees result in a different management model that would be better represented with current value, then the option to unlock the discount rate would exist in a business model approach as industry suggests. To the extent that the staff's concerns were specific to guarantees associated with interest rates, then we believe that the onerous contract test would adequately address those concerns.

Locking in the Discount Rate is NOT a Current Value
Staff View: The agenda paper suggests in paragraph 31 that by locking in the discount rate, that the measurement model would no longer be a current value model. They further suggest that it

may not provide significantly more value than the current U.S. GAAP model where all assumptions, including cash flows, are locked in at inception.

Response: We are unclear why the agenda paper suggests that the unlocking of the discount rate is the single most critical component to the building blocks and that without it we would be applying a FAS 60 model. Generally speaking, for long-duration contracts, we are in a cash flow management business and it is the expectation of future cash flows that most dramatically impacts our performance. We believe that reflecting current best estimate of expected cash flows is potentially the most significant improvement in the proposed building blocks compared to current U.S. GAAP. The effect of discounting is largely expected to be offset through the acquisition of financial instruments for most insurance contracts. Hence, it is important to match the accounting for the financial instrument with the interest rate component of the insurance contract, i.e. the discount rate.

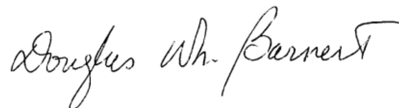
Complexity of a Locked-in Model

Staff View: The agenda paper expresses concern regarding complexity in a few places of the paper-paragraphs 28d, and 31. They reference it in the accounting for exchanges, the need for an onerous contract and in the administration of tracking the locked-in rates.

Response: The accounting for insurance contracts as required by the building blocks already contains complex data and modeling requirements. The added complexity of tracking discount rates at a cohort level or portfolio as well as an onerous contract test are not significant when compared to the existing challenges that the industry will face in implementing the proposed standard. Moreover, the benefit of isolating the changes in cash flows by locking in the discount rate will provide users with more pertinent financial analysis than a change in the obligation that contains the impact of changing discount rates. For onerous contracts where current reinvestment rates are insufficient to cover liability cash flows, recording a charge to reflect that expected loss is both appropriate and responsible as it will provide enhanced information to financial statement users.

As always, we welcome the opportunity to discuss these views with you in more detail at your convenience.

Sincerely,



Michael Monahan
Director, Accounting Policy
American Council of Life Insurers
101 Constitution Avenue NW
Washington, DC 20001

Douglas Wm. Barnert
Executive Director
Group of North American Insurance Enterprises, Inc.
140 Exchange Place, Suite 1707
New York, NY 10005

cc: Jennifer Weiner, FASB staff
Andrea Pryde, IASB staff

Michael Monahan
Director, Accounting Policy
(202) 624-2324 t (202) 572-4746 f
mikemonahan@acli.com

February 15, 2010

Sir David Tweedie, Chair	Mr. Robert H. Herz, Chair
International Accounting Standards Board	Financial Accounting Standards Board
30 Cannon Street	401 Merrit 7
London EC4M 6XH, United Kingdom	Norwalk, CT 06856-5116

Re: Insurance Contracts – Presentation of the performance statement

Dear Sir David and Bob Herz:

The American Council of Life Insurers (ACLI)[1] has studied the IASB/FASB staff paper 7E (32E) and reviewed the tentative decision of the 5 January 2010 meeting. At that meeting, the boards discussed five models for the presentation of the statement of comprehensive income for insurance contracts and tentatively rejected a model that recognizes revenue recognition on the basis of written premiums. Our observation is that Paper 7E is primarily about revenue recognition rather than presentation. This letter addresses both revenue and presentation since the two are closely related.

Staff described the five models for presenting the performance statement recommending that the insurer should:

(a) base revenue on an earned basis, rather than on a written basis
(b) not report as revenue the part of the premium that does not relate closely to the insurance coverage and other services (if any) provided under the contract (i.e., the insurer should not report as revenue the premium that relates to expected future repayments to the same policyholders).

The ACLI strongly disagrees with the staff recommendations. While staff noted that Example 2-earned premium presentation would be consistent with the unearned premium approach tentatively adopted by the IASB as a proxy for the measurement approach for short-duration contracts, it fails to address how it would apply to single premium contracts such as a single premium life-contingent immediate annuity or contracts with flexible premiums such as universal life and deferred annuities.

The second part of staff's recommendations appears to mandate that all premiums would be characterized as deposits and possibly establishes a cash value floor, which, the IASB has tentatively concluded, should not be part of the measurement of insurance liabilities. Our conclusion after reading part "b" of paragraph 3 of the Paper is that premiums are deposits if any part is to be returned to the same policyholder. Arguably premiums on all insurance contracts would be deposits when received since all policyholders have the potential to receive the considerations paid. For example, when a policyholder who purchased a disability policy becomes disabled, the insurer would only report premiums as revenue if or when the premiums exceed the benefit payments. Alternatively, in the situation when a policyholder does not receive any benefit payments, those premiums would be

[1] The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90% of the assets and premiums of the U.S life insurance and annuity industry.

revenue. While we doubt that staff intended the outcome described in this example, applying the proposed language could result in such an outcome.

Recommendation

In our June 30, 2009 letter on the Discussion Paper: *Preliminary Views on Revenue Recognition in Contracts with Customers,* we stated "that any accounting standard on revenue may be as much about presentation as it is about measurement. As it relates to insurance contracts, the contract liabilities relate primarily to the expected benefit payments payable to policyholders and beneficiaries. Any presentation of revenue and benefits that doesn't reflect the nature of the contract will be misleading and will not provide useful information to the users of financial statements." We further stated that the terms revenue and earnings are different. Earnings, in our view, typically equates to net income while revenue reflects the inflows resulting from a transaction with a customer.

We also provided comments on April 14, 2009 regarding the Discussion Paper: *Preliminary Views on Financial Statement Presentation.* In our response we indicated that the management approach should be the fundamental principle used for the preparation and presentation of financial statements. While we have no objection to cohesiveness as a guideline for the presentation of financial statements, the goal of improving cohesiveness between financial statements should not be given priority over management's communication of the unique information presented in each statement. We agreed that disaggregation of financial information into groupings that have essentially the same characteristics would provide decision useful information to financial statement users. The manner in which management chooses to run its business should dictate the appropriate level of disaggregation presented in the primary financial statements. The need for disaggregation should be balanced with the need for concise financial statements so that the user is not overburdened with excessive detail and understandability is lost. Our views and recommendations about disaggregation should not be interpreted to mean that we support unbundling, which is a different topic. Disaggregation is about presentation in sufficient detail to enable the users to understand the financial condition of the reporting entity.

To achieve the board's reporting objective and enhance transparency, we propose the following:

1. Report the gross premiums, customer consideration, as revenue in accordance with the terms of the insurance contract
2. Disaggregate the major elements of the liability, for example, present value of benefits, present value of expenses, present value of future premiums and present value of margins in the financial statement of position reflecting the nature of the business as determined by management
3. Separate the insurance activity from the investment activity within the business category in the statement of comprehensive income with the interest component associated with the elements of the insurance liability included in investment activity to better reflect the nature of the business
4. Enhance disclosures to report source of earnings by major segment

Report the gross premiums as revenue

As illustrated below, we believe the staff paper did not adequately address the nature of a long-duration insurance contract. With such contracts we believe that the gross premium represents the customer consideration under the contract and should be the revenue recognized. As long as the policyholder pays the premium, the insurer is obligated to pay the benefits under the terms of the contract. The customer has satisfied their obligation by paying the premium. The insurer's liability is the estimated value of its obligation to pay the benefits. In our view the gross premium is "earned" in the sense that premium received is the consideration for the insurers willingness to accept the risks covered in the contract. The "earned" premium will not become "earnings" until the insurance company is released from risk.

The difficulty we had with the examples contained in Paper 7E is that the time period was only one year. Since the reporting entity's financial statements cover a full year, there would be no difference between example 1-written premium and example 2-earned premium since the income statement for the year under both models would be:

Premium revenue	1,000
Investment income	78
Total income	1,078
Claims and benefits	935
Expenses	80
Total expenses	1,015
Profit	63

Example 2 accurately portrays the revenue pattern for one year contracts, such as yearly renewal term, and most annual premium paying contracts, e.g., life, disability and long-term care contracts under the current reporting format. The essential criteria for recognizing premium as revenue over the contract year is that the insurer typically returns the unearned portion of the premium to the policyholder/beneficiary if the contract is terminated or lapsed. In other contracts, such as a single premium life-contingent annuity, example 1 would be the appropriate model. For this contract, the customer has satisfied their performance obligation. The insurer's obligation is to pay the benefits under the terms of the contract. In the unfortunate case where the policyholder dies, for example, in the second year of the life income annuity with no certain period, benefits cease and there is no refund of any part of the premium. Therefore, the written premium and earned premium models should be included in the accounting standard with the insurer applying the model that is consistent with the terms of the contract. Because the examples were simple in design, we believe that a broader analysis is needed. The examples in the appendix to this letter are intended to provide that analysis and support our view for retaining both models.

As we noted in our letters on Revenue Recognition and Financial Statement Presentation, the nature of the contract and the contractual terms are essential to measurement and presentation. For example, consider the process a policyholder would use to determine the type of life insurance coverage to purchase. Let's assume that the potential policyholder is age 45 and plans to purchase $200,000 of life insurance. The individual is considering three alternatives: 1) yearly renewal term (YRT), 2) 10 year level premium term, and 3) universal life (UL). Assume further that the individual has assessed the need for ten years of insurance coverage. Based upon this need, the individual has received the following premium quotes:

Year	YRT	10 yr. Term	UL
1	164.90	415.00	1,958.00
2	230.86	415.00	1,958.00
3	288.58	415.00	1,958.00
4	346.29	415.00	1,958.00
5	415.00	415.00	1,958.00
6	494.70	415.00	1,958.00
7	593.64	415.00	1,958.00
8	695.33	415.00	1,958.00
9	802.51	415.00	1,958.00
10	904.20	415.00	1,958.00
Total payments	4,936.01	4,150.00	19,580.00

Before making a decision the individual would weigh the likelihood of being unable to purchase insurance during the next 10 years, i.e., risk of becoming uninsurable, advantages and disadvantages of locking in a fixed premium and the possible need for insurance at the end of the tenth year. In our opinion, whether the individual chooses the YRT, 10 year term or UL contract, the contractual premiums should be reported as revenue. In year 1 under the YRT contract, revenue would be $164.90; revenue of $415.00 would be reported for the level term contract, and $1,958.00 reported as revenue under the UL contract.

As stated above the premium presents the customer's performance under the contract and by paying the premium they have satisfied their obligation under the contract. Furthermore, the premium is earned by the insurance company as the premium represents compensation for accepting the risk and assuming the obligation that is established on the balance sheet.

There is a difference between insurance contracts and financial instruments that must be taken into account by standard setters when developing guidance about revenue and presentation. Appendix A of IFRS 4 defines an insurance contract as a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder. This definition does not preclude an insurance contract from containing features that some describe as an investment component. For example, life contracts, including UL, contain a contract feature that provides surrender value if the policyholder surrenders the contract. At contract inception, there is significant insurance risk but if the policyholder outlives the mortality table there is very little insurance risk, e.g., at age 100. We believe that once a contract is identified as an insurance contract, it remains an insurance contract. To flip from an insurance contract to a financial instrument over time will result

in confusion and misunderstanding by the users of the financial statements. The measurement of the insurance contract would take into account all expected outcomes under the terms of the contract. Insurance contract premiums should be recognized as revenue not deposits.

Presentation of the performance statement

The five models outlined in Paper 7E are presented as alternatives to the presentation of insurance contracts in the performance statement. Presentation of financial results should not be limited to revenue recognition. One of the criticisms about today's financial statements for insurance companies is the lack of clarity and understanding of the insurance activity. To achieve greater transparency and usefulness, separating components of the liability and reflecting the changes in the performance statement in a way that separates the insurance activity and the investment activity should be considered. To reiterate a point made earlier in this letter, disaggregating information in the financial statements should not be confused with unbundling, which is a separate topic.

Exhibit A of the Appendix titled SFAS No. 60 Approach provides an example of the balance sheet and income statement illustrating the current accounting for a portfolio of 10 year term contracts. As we noted, it is often difficult for users to understand the sources of earnings from this summarized view.

Exhibit B titled Modified Insurance Presentation (SFAS No. 60) provides an illustration of the portfolio of term contracts reorganized by activity that, we believe, better aligns with the sources of earnings of an insurer. The illustration focuses on the income statement that assumes the insurance liabilities would be disaggregated as displayed in the balance sheet. The income statement (Exhibit B) separates insurance and investment activity. A major departure from today's reporting is that in this example the interest element related to DAC and the insurance liabilities is separated and reported as an investment activity. The change in DAC and the change in the liability exclude the interest portion reflecting the actual change attributable to the insurance operations. The result, we believe, would be a clearer picture of the insurance performance as well as a comprehensive view of the investment activity.

The first example in Exhibit C, titled Imm. Annuity (SFAS No. 60), illustrates the financial results of a single premium life-contingent immediate annuity contract. Under SFAS No. 60, the single premium-gross premium, is recognized in revenue at inception, which the agenda paper describes as model (a), written premium. Immediate recognition of the premium as revenue is appropriate and consistent with the customer consideration approach described in the joint Revenue Recognition project. The customer has satisfied their performance obligation. The insurer has the obligation to make benefit payments over the insurer's life, which is represented in the measurement of the insurance liabilities. The net income that emerges over time is a result of the investment returns and the release of PADs included in the liability measurement. Recognizing the gross premiums-customer consideration, as revenue in accordance with the contract provisions is consistent with the nature of the business.

The second example in Exhibit C titled Imm. Annuity (SFAS No. 60) Modified Presentation illustrates an immediate annuity contract reorganized to separate the insurance and investment activities. Because the annuity contract was modeled based upon the actual interest rate environment beginning in 1970, the investment results reflect the actual performance.

Exhibit D illustrates a universal life contract (UL) with the first example displaying the results applying the accounting guidance of SFAS No. 97. UL contracts recognize the premium as a deposit with fees assessed that reduces the account value. A fee based approach to revenue recognition was adopted primarily because of the flexibility of the policyholder in making premium payments even though the contract typically describes the expected premiums necessary to maintain the coverage amount over the contract life. We have no objection to retaining a fee based model for certain insurance contracts such as UL, which is identified in the staff paper as model (c) -unbundled fees where the contract is managed on a fee basis. However, we believe the proposed building blocks approach for the

measurement of insurance contracts would change the way the liability is measured for UL contracts from a retrospective method[2] to a prospective method[3]. This change in the measurement method would likely lead to a change in revenue recognition and presentation for UL contracts. If the boards decide that a single model should be adopted for all insurance contracts, our recommendation is that a gross premium model as revenue is the preferred approach.

The second example in Exhibit D illustrates a premium approach reporting gross premiums as revenue. The reported premiums represent the amounts paid by the policyholder in accordance with the contract terms. The benefits reflect the death and surrender amounts paid by the insurer. One of today's reporting challenges is that two contracts, e.g., term contract and UL contract paying similar benefits, report different amounts in the income statement. Assume, for example, that in the beginning of the fifth year of the term and UL contract, the insured dies and the death benefit of $200,000 is paid to the beneficiary. The death benefit reported in the income statement of the insurer issuing the term contract would be $200,000. However, the death benefit reported in the income statement of the insurer issuing the UL contract would be the death benefit, $200,000, net of the account value resulting in a different amount reported as death benefits compared to the term contract.

The illustrations in the Appendix are intended to serve as examples of how the reporting entity might disaggregate information to provide more useful information to the users. The examples should not be interpreted to represent the only way information could be disaggregated nor interpreted to mean that insurance contracts should be unbundled. Management should determine the level of detail to be presented in the financial statements that reflects the business. Note too, that the illustrations were prepared based upon current U.S. GAAP. Since most insurance contract liabilities are measured under a cost model and not fair value, the illustrations do not show how changes in value should be presented under a current value measurement approach.

Model (d)-Summarized margin and model (e)-expanded margin are not viable options in our opinion. Neither margin approach provides meaningful information to users since it ignores the main drivers of insurance contracts-premiums and benefit payments. The Summarized margin model, in our view, confuses revenue an earnings. The explicit margins calibrated in the measurement of insurance contract liabilities emerge over time as the terms of the contract are fulfilled. If actual results equal expected, the margins are the result (net income) of collecting premiums and paying benefits and expenses. The margin approach also is inconsistent with the customer consideration approach in the Revenue Recognition project that recognizes the customer consideration, i.e., premiums, as revenue. Recognizing gross premiums as revenue would be consistent with model (a)-written premium or model (b)-earned premium based upon the nature of the contract and the way the business is managed.

Disclosures

In the ACLI response to the Discussion Paper, *Preliminary Views on Insurance Contracts,* we recommend that the Board develop disclosure requirements related to the liability as a whole, rather than disclosures focused on any particular component of the liability. More useful and relevant disclosures would include information regarding the risks in the total liability, such as those sensitive to changes in interest rates and the average duration of the contracts valued. IFRS 4, *Insurance Contracts,* requires extensive disclosures about insurance contracts including information about the nature and extent of risks in insurance contracts. While we believe the current disclosure requirements of IFRS 4 enable users to understand the risks inherent in insurance contracts, the proposed change in measurement to a current value approach might lead to additional disclosures. For example, the

---

[2] SFAS NO. 97, describes the retrospective method as follows: "Accounting methods that measure the liability for policy benefits based on policyholder balances are known as retrospective deposit methods."

[3] The prospective method is defined as a method of calculating reserves based on the present value of future cash flows.

effect of changes in estimates about the cash flows in the liability could be described in the notes if insufficient details are presented in the financial statements. We observed, however, that the IFRS 4 disclosures cover insurance contracts measured using the fair value option.

Users are also interested in knowing details about the sources of earnings. The examples in the Appendix offer possible approaches to disaggregation that could enhance the financial statements usefulness. Ultimately, management must identify the material drivers to earnings that reflect the nature of its business providing sufficient details in the statements and notes to achieve the reporting objective.

Summary

Insurance contract revenue should be based upon the customer consideration, which is represented by the premiums specified in the contract. Revenue should be recognized as the policyholder, customer, pays the premium under the terms of the contract. Typically, the revenue would be patterned after examples 1 and 2 described in staff paper 7E.

The presentation of financial information by an insurer in the financial statements and notes should be disaggregated in sufficient detail to enable users of the information to understand the insurance business being reported. Examples of ways to achieve transparency and understandability would be to separate the major components of the liability as illustrated in the Appendix and to clearly distinguish between insurance and investment activity.

Financial statements alone cannot provide all of the information users would find helpful to understand the business. Disclosures, either in the notes to the financial statements or segment reporting, are the appropriate places to provide supplemental information. For example, disclosures about the key drivers of the sources of earnings or movement analysis of major components of the liability could be presented in this way.

It is our hope that the examples and our comments could serve as the basis for discussion to help address this critical issue. We welcome the opportunity to meet with you for a detailed discussion about the insurance contracts project and specifically about revenue recognition and presentation.

Sincerely,

cc: Warren McGregor, IASB
Peter Clark, IASB staff
Hans Van de Veen, IASB staff
Jeffrey Cropsey, FASB staff
Mark Trench, FASB staff

Appendix: Illustrations of insurance contracts

The illustrations contained in the Exhibits were developed to facilitate the discussion about revenue recognition for insurance contracts and presentation of financial performance of insurance entities. The examples reprise work that we have used in prior correspondence. Exhibit A contains examples of a 10 year term contract that served as the basis of discussion in our January 29, 2010 letter on acquisition costs.

Exhibit C contains illustrations of a single premium life-contingent immediate annuity contract. This contract and its underlying assumptions were presented in the American Council of Life Insurers (ACLI) and the International Actuarial Association (IAA) Joint Research Project to the IASB on June 3, 2003.

Exhibit D contains illustrations of a Universal Life (UL) contract issued at age 45 with a face amount of $200,000 and actual premiums paid= expected premiums. This contract and its underlying assumptions were presented in a follow-up ACLI and IAA Joint Research Project to the IASB in August 2004.

Exhibit A

Exhibit A presents the financial statements, statement of financial position and statement of income, applying SFAS No. 60 accounting guidance to a portfolio of term contracts. The illustrations assume that the insurer has sufficient capital (surplus) at inception to meet its cash flow needs and capital requirements. Surplus grows by the annual net income. The details about contract features are contained in our January 29, 2010 letter on acquisition costs.

Exhibit B

Exhibit B illustrates an alternative presentation format based upon the fact pattern of Exhibit A, SFAS No. 60 approach. By disaggregating information about the elements of the insurance liability and displaying the effect of the changes between periods in the statement of income, for example reporting the interest component within the investment activity, users would have a better understanding of the sources of earnings for an insurer.

Exhibit C

Exhibit C illustrates the financial effect of a single premium life-contingent immediate annuity, which was foundational to the ACLI & IAA Joint Research Project submitted to the IASB in June 2003. The Modified Presentation example shows that separating the investment and insurance activity provides a clearer picture of the reporting entity's performance by focusing on the drivers of earnings.

Exhibit D

Exhibit D illustrates a universal life contract for the purpose of assessing alternative presentation approaches. SFAS No. 97 serves as the underlying accounting guidance that requires a fee based presentation with premiums reported as deposits. The first example titled-Universal Life (SFAS No. 97 Approach), illustrates the financial results-balance sheet and income statement, serving as the basis for the GAAP earnings displayed in chart 7 of the ACLI/IAA Joint Research Report to the IASB in August 2004. The income statement is a fee based presentation in accordance with SFAS No. 97 guidance. Also, the measurement of the insurance liability under this accounting standard is a retrospective measurement, which is represented by the account balance, i.e., premiums are deposits.

The second example titled- Universal Life (Premium Approach), illustrates the financial statements underlying chart 1b with premiums reported as revenue under the "expected renewal premium" scenario. Assuming the final standard that emerges from the joint IASB/FASB project requires the measurement of insurance contracts using a building blocks approach, the measurement basis shifts from a retrospective measurement (SFAS No. 97) to a prospective view. Consideration needs to be given to how this shift in measurement will impact the presentation of the results for UL contracts.

EXHIBIT A

SFAS No. 60 Approach

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Assets:											
Invested assets	465.0	17.1	243.5	425.9	579.7	703.8	797.8	858.7	888.2	886.6	856.2
DAC	-	628.9	542.5	462.6	387.5	316.9	250.2	186.2	123.3	61.3	0.0
Total Assets	465.0	646.0	786.0	888.5	967.2	1,020.7	1,048.0	1,044.9	1,011.5	947.9	856.2
Liabilities:											
PV of liabilities		152.9	262.1	337.9	385.0	402.4	389.2	341.7	260.3	145.1	(0.0)
Total Equity	465.0	493.1	523.8	550.6	582.2	618.3	658.8	703.2	751.2	802.5	856.2
Total Liabilities & Equity	465.0	646.0	786.0	888.5	967.2	1,020.7	1,048.0	1,044.9	1,011.5	947.6	856.2

SFAS No. 60 Approach

Income:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Premium revenue	415.0	377.5	343.2	315.5	289.9	266.4	247.3	234.6	222.4	210.7
Investment income	6.4	17.3	20.1	30.2	38.5	45.0	49.7	52.4	53.2	52.3
Total gross income	421.4	394.8	363.3	345.6	328.4	311.4	297.0	287.0	275.6	263.0
Benefits & Expenses:										
Benefits	96.0	122.2	138.9	153.3	168.8	184.9	206.0	228.8	250.3	267.3
Expenses	773.3	46.2	42.0	38.6	35.5	32.6	30.2	28.7	27.2	25.8
Change in DAC	(628.9)	86.4	79.9	75.1	70.7	66.7	63.9	62.9	62.0	61.3
Change in reserves	152.9	109.3	75.7	47.2	17.4	(13.1)	(47.5)	(81.4)	(115.2)	(145.1)
Total benefits & expense	393.3	364.1	336.5	314.0	292.3	271.0	252.6	238.9	224.4	209.3
Net income	28.1	30.7	26.8	31.6	36.2	40.4	44.4	48.0	51.2	53.7

EXHIBIT B

Modified Insurance Presentation
(SFAS No. 60)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Assets:											
Invested assets	465.0	17.1	243.5	425.9	579.7	703.8	797.8	858.7	888.2	886.6	856.2
DAC	-	628.9	542.5	462.6	387.5	316.9	250.2	186.2	123.3	61.3	0.0
Total Assets	465.0	646.0	786.0	888.5	967.2	1,020.7	1,048.0	1,044.9	1,011.5	947.9	856.2
Liabilities:											
PV of future benefits		1,418.1	1,353.5	1,268.6	1,164.7	1,039.9	892.6	716.5	508.5	268.6	
PV of future net premiums		(1,265.2)	(1,091.4)	(930.7)	(779.7)	(637.5)	(503.4)	(374.8)	(248.2)	(123.5)	
PV of liabilities		152.9	262.1	337.9	385.0	402.4	389.2	341.7	260.3	145.1	(0.0)
Required Equity	-	8.3	18.6	25.3	29.4	30.6	29.4	26.0	20.8	13.4	-
Free Equity	465.0	484.8	505.2	525.2	552.8	587.7	629.4	677.2	730.4	789.1	856.2
Total Equity	465.0	493.1	523.8	550.6	582.2	618.3	658.8	703.2	751.2	802.5	856.2
Total Liabilities & Equity	465.0	646.0	786.0	888.5	967.2	1,020.7	1,048.0	1,044.9	1,011.5	947.6	856.2

EXHIBIT B

Modified Insurance Presentation (SFAS No. 60)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Insurance operations:										
Premium revenue	415.0	377.5	343.2	315.5	289.9	266.4	247.3	234.6	222.4	210.7
Benefits & Expenses:										
Benefits	96.0	122.2	138.9	153.3	168.8	184.9	206.0	228.8	250.3	267.3
Change in Liability	142.0	92.4	54.9	23.6	(7.6)	(38.3)	(71.6)	(103.0)	(132.8)	(157.2)
Change in DAC	(601.8)	109.8	99.8	91.7	84.3	77.5	71.9	68.2	64.7	61.3
Expenses	773.3	46.2	42.0	38.6	35.5	32.6	30.2	28.7	27.2	25.8
Total benefits & expense	409.5	370.6	335.6	307.2	280.9	256.6	236.6	222.7	209.4	197.2
Net insurance income	5.5	6.8	7.6	8.3	9.0	9.7	10.8	11.9	12.9	13.5
Net Investment income-investments	6.4	17.3	20.1	30.2	38.5	45.0	49.7	52.4	53.2	52.3
DAC interest	27.1	23.4	19.9	16.7	13.6	10.8	8.0	5.3	2.6	
Liability interest	(10.9)	(16.8)	(20.8)	(23.5)	(25.0)	(25.1)	(24.0)	(21.6)	(17.6)	(12.1)
Net Investment income	22.6	23.8	19.2	23.3	27.2	30.7	33.7	36.2	38.3	40.2
Net income	28.1	30.7	26.8	31.6	36.2	40.4	44.4	48.0	51.2	53.7

EXHIBIT C

Imm. Annuity (SFAS No. 60)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
PV of liabilities	85,598	82,417	79,171	75,865	72,503	69,093	65,642	62,158	58,651	55,131	51,610
Income:											
Premium revenue		89,657	-	-	-	-	-	-	-	-	-
Investment income		6,837	6,646	6,422	6,162	5,893	5,614	5,321	5,012	4,698	4,378
Total Income		96,494	6,646	6,422	6,162	5,893	5,614	5,321	5,012	4,698	4,378
Benefits & Expenses:											
Benefits		9,826	9,642	9,446	9,238	9,017	8,783	8,534	8,270	7,991	7,695
Expenses-acquisition & maintenance		4,066	7	7	6	6	6	6	6	6	5
Change in reserves		82,417	(3,246)	(3,306)	(3,362)	(3,410)	(3,451)	(3,484)	(3,507)	(3,520)	(3,521)
Total benefits & expense		96,309	6,403	6,147	5,883	5,613	5,338	5,056	4,769	4,477	4,179
Net income		185	243	276	279	279	277	265	244	221	198

Imm. Annuity (SFAS No. 60)
Modified Presentation

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
PV of future benefits	82,155	78,902	75,572	72,172	68,708	65,187	61,619	58,014	54,385	50,745	47,110
PV of PADs	3,385	3,460	3,546	3,643	3,747	3,861	3,980	4,103	4,228	4,350	4,467
PV of future expenses	58	55	53	51	48	46	43	41	38	36	33
PV of liabilities	85,598	82,417	79,171	75,865	72,503	69,093	65,642	62,158	58,651	55,131	51,610
Income:											
Premium revenue		89,657	-	-	-	-	-	-	-	-	-
Benefits & Expenses:											
Benefits		9,826	9,642	9,446	9,238	9,017	8,783	8,534	8,270	7,991	7,695
Expenses-acquisition & maintenance		4,066	7	7	6	6	6	6	6	6	5
Change in reserves		75,569	(9,839)	(9,640)	(9,431)	(9,211)	(8,979)	(8,736)	(8,480)	(8,212)	(7,932)
Total benefits & expense		89,461	(190)	(187)	(187)	(188)	(190)	(196)	(204)	(215)	(232)
Net insurance income		196	190	187	187	188	190	196	204	215	232
Investment income		6,837	6,646	6,422	6,162	5,893	5,614	5,321	5,012	4,698	4,378
Interest on Ins. Liability		(6,848)	(6,593)	(6,334)	(6,069)	(5,800)	(5,527)	(5,251)	(4,973)	(4,692)	(4,410)
Net investment income		(11)	53	88	93	93	87	70	39	6	(32)
Net income		185	243	276	279	279	277	265	244	221	198

EXHIBIT D

Universal Life (SFAS No. 97 Approach)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Invested assets	780	1,539	2,670	3,658	4,616	5,484	6,265	6,962	7,549	8,058
DAC	1,616	1,424	1,294	1,392	1,256	1,294	1,269	1,186	1,318	1,748
Total assets	2,396	2,963	3,963	5,050	5,872	6,778	7,534	8,148	8,867	9,807
PV of liabilities	1,314	2,347	3,242	4,069	4,887	5,638	6,314	6,913	7,420	7,869
Equity	1,082	616	721	982	985	1,140	1,220	1,235	1,447	1,937
Total liabilities & equity	2,396	2,963	3,963	5,050	5,872	6,778	7,534	8,148	8,867	9,807
Insurance operations:										
Cost of insurance	432	394	369	355	350	351	355	360	366	374
Surrender charges	214	267	166	104	62	48	36	25	16	7
Expense charges	217	84	74	66	61	57	53	50	47	44
Reduction in UREV liability	(105)	13	9	(3)	9	0	4	7	(4)	(20)
Investment income	65	191	236	308	393	460	525	568	578	622
Total gross income	823	950	854	830	874	917	973	1,010	1,003	1,027
Benefits & Expenses:										
Benefits	174	216	251	266	275	283	287	290	296	305
Commissions & Expenses	2,012	159	139	125	114	107	100	94	88	83
Change in DAC	(1,616)	193	130	(99)	136	(38)	25	83	(132)	(430)
Interest on account value	115	187	251	296	360	407	454	490	489	512
Total benefits & expense	685	754	771	588	886	759	866	957	741	470
Net income	138	195	83	243	(12)	158	108	53	262	558

Universal Life (Premium Approach)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total assets	780	1,539	2,670	3,658	4,616	5,484	6,265	6,962	7,549	8,058
PV of liabilities	(314)	972	2,066	2,643	3,772	4,390	5,093	5,873	5,898	6,150
Equity	1,094	567	604	1,015	844	1,094	1,172	1,089	1,651	1,908
Total liabilities & Equity	780	1,539	2,670	3,658	4,616	5,484	6,265	6,962	7,549	8,058
Insurance operations										
Premium revenue	1,958	1,663	1,453	1,305	1,198	1,123	1,053	987	924	866
Benefits & Expenses:										
Death Benefits	176	219	257	275	287	299	306	313	323	337
Surrender Benefits	-	55	185	243	246	308	363	413	455	491
Commissions & Expenses	2,012	159	139	125	114	107	100	94	88	83
Change in reserves	(429)	1,099	842	282	769	211	249	289	(463)	(260)
Total benefits & expense	1,759	1,532	1,423	925	1,416	925	1,018	1,109	403	651
Net insurance income	199	131	30	380	(218)	198	35	(122)	521	215
Investment income-investments	65	191	236	308	393	460	525	568	578	622
Interest on liability	(115)	(187)	(251)	(296)	(360)	(407)	(454)	(490)	(489)	(512)
Net investment income	(50)	4	(15)	12	33	53	71	78	89	110
Net income	149	135	14	392	(185)	252	106	(44)	610	325

Michael Monahan
Director, Accounting Policy
(202) 624-2324 t (202) 572-4746 f
mikemonahan@acli.com

April 14, 2009

Mr. Robert Herz
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1630-100 -Discussion Paper-Preliminary Views on Financial Statement Presentation

Dear Mr. Herz:

The American Council of Life Insurers (ACLI)[1] is pleased to share with you our views regarding the questions contained in the Discussion Paper, *Preliminary Views on Financial Statement Presentation* (DP). In addition to our responses to the questions, we are including additional thoughts on specific sections that were not addressed in the questions.

Summary
The DP proposes major changes to the format and content of general purpose financial statements. Overall, we believe that some of the proposed changes will improve the usefulness of the information presented in the entity's financial statements. However, we do have concerns about certain proposals, such as presenting cash equivalents separately from cash and the reconciliation schedule, which are detailed in our comments. We also believe that the cost to provide certain disaggregated information especially in the reconciliation schedule far outweigh any benefits. Below is a summary of our major observations and recommendations followed by our responses to the individual questions asked in the DP.

- Management approach-We strongly support the expressed position that the presentation model rely on a management approach to classification of assets and liabilities and related changes consistent with the way the entity manages its business. This approach will improve the usefulness of the financial statements and improve the quality of financial reporting because it allows users to view the statements "through the eyes of management". While comparability may be compromised initially, we believe that over time there will be convergence as entities become acclimated to the new format.
- Cash and cash equivalents-We do not agree with the proposal that cash equivalents should be presented and classified separately from cash. Cash alone is not meaningful for financial institutions since one of its primary functions is to actively manage its investments including cash. For example, the entity will routinely manage its cash to a near zero amount by sweeping

[1] The American Council of Life Insurers represents 340 member companies operating in the United States, of which 332 are legal reserve life insurance companies, and 8 are fraternal benefit societies. These 340 member companies account for 93% of total life insurance company assets, 94% of the life insurance premiums, and 94% of annuity considerations in the United States.

any balances into a money market fund or overnight account. Cash and cash equivalents is a better indicator of a financial institution's "cash" to meet its immediate obligations.

- Direct/Indirect Method of Cash Flows-While we understand the decision to move toward the direct cash flow method to achieve cohesiveness, when combined with the expected level of disaggregation the changes will significantly increase the cost of preparation and maintaining the processes for compliance. We question whether the additional data will actually result in quality information to analysts. The current U.S. GAAP guidance (SFAS No. 95, *Statement of Cash Flows*), which provides a choice between the two methods with additional disclosures when the direct method is used should be retained.

- Reconciliation schedule-We do not believe that the reconciliation of the Statement of Comprehensive Income to the Statement of Cash Flows provides sufficient value to the users to justify the cost. The cost of implementation, ongoing costs to manage the changes including the internal controls needed to ensure the accuracy and quality of the information along with increased audit fees far outweigh any perceived value from this schedule. With the expectation that there will be greater disaggregation of information, users should be able to understand the effects of changes in accruals and changes in fair value without this schedule.

Conclusion
Presentation of financial statements in a way that reflects management's approach in an organized way by category-business, financing, taxes and discontinued operations, with a secondary objective of cohesiveness should enhance the usefulness of the statements. While increased disaggregation might be useful, we urge the boards to carefully assess the extent of disaggregation and reconciliation with the expected cost to achieve the objective. A comprehensive analysis detailing how the proposed standard will enhance the understanding and usefulness beyond that described in paragraphs 1.11-1.12 should also be a project objective.

Before moving to the next phase of the standard setting process, we encourage the boards to challenge analysts and other users, as part of the field testing, to demonstrate how the additional data, especially with respect to the reconciliation schedule and the expanded disaggregation within the statements, will provide them with useful information. We believe it is important to solicit feedback from a wide range of users and not limit the feedback to analysts' comments. In this way the boards should be in position to develop a standard that balances the needs of users with the added burden to preparers of the financial statements.

Sincerely,

Michael M. Monahan
Director, Accounting Policy

Preliminary Views on Financial Statement Presentation
Questions for respondents

Chapter 2: Objectives and principles of financial statement presentation

1. Would the **objectives of financial statement presentation** *proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper?*
If so, please describe and explain.

We generally agree that the concepts of cohesiveness, disaggregation and liquidity and financial flexibility are appropriate objectives for financial statement presentation. We believe the management approach should be the fundamental principle used for the preparation and presentation of financial statements. While we have no objection to cohesiveness as a guideline for the presentation of financial statements, the goal of improving cohesiveness between financial statements should not be given priority over management's communication of the unique information presented in each statement.

We agree that disaggregation of financial information into groupings that have essentially the same characteristics would provide decision useful information to financial statement users. The manner in which management chooses to run its business should dictate the appropriate level of disaggregation presented in the primary financial statements. The need for disaggregation should be balanced with the need for concise financial statements so that the user is not overburdened with excessive detail and understandability is lost.

We agree conceptually with the objective of liquidity and financial flexibility, but the long term nature of insurance contracts provides unique challenges in presentation. For insurance companies, which do not have a clearly defined operating cycle, it is more relevant to present assets and liabilities in the statement of financial position in order of liquidity rather than categorizing items as short-term or long-term.

2. Would the **separation of business activities from financing activities** *provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?*

We believe that separating business activities from financing activities provides useful information and supports the principle of cohesiveness by improving consistency between the primary financial statements. The classification of a transaction as a business or financing activity in the financial statements should be determined based on management's view while taking into consideration the underlying substance of the transaction.

3. Should **equity** *be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?*

We believe a clear distinction of equity from financing is appropriate in the financial statements and is best accomplished by presentation in a separate section rather than as a category within

the financing section. The capital provided by lenders by its nature creates a financial liability that must be supported by the business activities of the entity before there is any benefit to the owners providing equity capital. Separation of financing and equity activities supports the principal of cohesiveness as debt servicing activities related to non-owners will be clearly presented in all statements.

4. In the proposed presentation model, an entity would present its discontinued operations *in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?*

We believe it is useful to present a discontinued operation as a separate section and not to include its activities in the various reporting categories. Investors need a clear view of the continuing business activities of an entity undistorted by the activities of a discontinued operation. Discontinued operations by their nature distort the ongoing activities of an entity as the related one-time costs have different implications for future cash flows. Separate presentation of the discontinued operation also provides an understanding of the impact of the discontinued operations on the entity.

5. The proposed presentation model relies on a management approach *to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).*
(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

The paper's definition of a management approach (classifying assets and liabilities in the business section and in the financing section in a manner that best reflects the way the asset or liability is used within the entity) would provide a useful view. As discussed in question 2, the separation of business and financing activities does provide useful information and support the objectives of financial statement presentation. Given that, management's view of how the assets and liabilities are used seems the most appropriate way to make the distinction.

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?
We do not believe this presentation would reduce comparability. Segregating the unique aspects of a business could result in some initial issues with comparability. However, outliers would be more obvious than in the past, leading to additional disclosure and the evolution of improved comparability over time. This evolution would also lead to true comparability, rather than prescribed comparability, an improvement over past practices. Additionally, the inclusion of an entity's policy for classifying its assets and liabilities in the accounting policy note disclosure (paragraph 2.41) would provide the user of financial statements with information to enhance comparability.

To enhance comparability and ensure consistency, we recommend that the final standard include guidance about criteria resulting in a change in accounting policy. Our recommendation is:

- A change in the way management defines the content of a section or a category would be considered a change in accounting policy (with retrospective implementation)

- A change in an asset or a liability classification (e.g., a change in use of an asset or liability) would not be considered as a change in accounting policy and therefore would only apply prospectively

6. Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the ***statement of financial position****. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?*

The change in presentation could allow key ratios to be calculated on one aspect of a company's business (e.g. return on business assets only), versus for the entire entity. This may be more meaningful to users. It could also facilitate the creation of more detailed analysis, including the development of new ratios. The presentation would allow a clearer view of where cash flow and profits are originating. If the user wanted to calculate a ratio at an entity level the information would still be available, but it may be slightly more difficult as data would need to be combined.

7. Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have ***more than one reportable segment*** *for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.*

Given that the management approach to classification requires classification to be based upon on how the asset or liability is used, classification at the reportable segment level may be needed in some instances. If an entity has diverse segments that use similar assets or liabilities in different functions (operating versus financing) a classification policy at the segment level versus the entity level may be required. How this requirement should apply to classification at the reportable segment level (multiple classification policies, etc.) should be left to management's discretion.

8. The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making ***consequential amendments to existing segment disclosure requirements*** *as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.*

The objective of requiring disclosures about segments of an enterprise and related information is to provide information about the different types of business activities in which an enterprise engages and the different economic environments in which it operates to help users of financial statements better understand the enterprise's performance, better assess its prospects for future net cash flows, and make more informed judgments about the enterprise as a whole. That objective is consistent with the objectives of general-purpose financial reporting.

Current segment reporting requires disclosure of a measure of profit or loss and assets by reporting segment. Current US GAAP also requires disclosure about other specified amounts by reporting segment, if those amounts are included in the measure of profit or loss.

We believe that segment reporting should continue to be provided as a disclosure item, rather than provided on the face of the financial statements. Because current segment reporting requires the disclosure of a measure of profit and loss by segment, as well as disclosure about other specified amounts within that measure of profit or loss by reporting segment, we believe that the existing disclosures are sufficient with regard to measures of profit or loss to meet the objective described above. Furthermore, we believe that management's judgment should be used to determine what level of segment assets should be reported in order to meet the financial reporting objectives contained within the framework of this Discussion Paper. Total assets provided in the segment disclosure should be reconciled to the Statement of Financial Position to ensure cohesiveness of financial reporting. We believe that the reconsideration of segment reporting is not required at this time since the objective of requiring segment disclosures in existing guidance is consistent with the principles of this Discussion Paper.

9. Are the **business section** *and the* **operating and investing categories** *within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?*

We generally believe that the business section and the operating and investing categories are defined appropriately. However, we believe that management's judgment should be used to appropriately reflect the substance of the underlying transactions within these categories. Furthermore, we recognize that there may be some challenges in applying those definitions in certain industries and that the interpretation and practical application of those definitions may vary by industry. For example, life insurance companies utilize certain investment portfolios to support the cash flows of its underlying business, whereas companies in other industries may primarily use investment portfolios to generate a return that is not part of its primary revenue generating activities. This is one example of nuances that exist and such practical applications that should be explored further during field testing to ensure that further modifications or explanations should be provided in the guidance, as needed. We recommend that field testing be performed on an ongoing basis to encourage comparability of financial statements within an industry until industry practice develops.

10. Are the **financing section** *and the* **financing assets and financing liabilities categories** *within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?*

We do not believe that the financing section should be restricted to financial assets and financial liabilities as defined in IFRS and US GAAP as proposed. We believe that companies should not be limited to the definition in existing GAAP and that the classification should be based on the substance of the underlying transactions, and that management's judgment should be the primary criteria, in accordance with the framework outlined in this Discussion Paper.

Chapter 3: Implications of the objectives and principles for each financial statement

11. Paragraph 3.2 proposes that an entity should present a **classified statement of financial position** *(short-term and long-term subcategories for assets and liabilities) except when a*

presentation of assets and liabilities in order of liquidity provides information that is more relevant.
(a) What types of entities would you expect **not** *to present a classified statement of financial position? Why?*

Those that do not have an operating cycle that can be clearly defined between short term and long term such as insurance should not be required to present a classified statement of financial position. We believe it is more relevant for insurance companies to present the statement of financial position using liquidity order.

(b) Should there be more guidance for distinguishing which entities should present a ***statement of financial position in order of liquidity****? If so, what additional guidance is needed?*

No additional guidance is needed. The decision as to the manner and degree of presentation should be left up to management. We expect industry practice will develop over time and entities will select a consistent presentation across industries. The choice of methodology and the reasons should be disclosed in the accounting policy footnote.

12. Paragraph 3.14 proposes that ***cash equivalents*** *should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?*

Cash is commonly considered to consist of currency and demand deposits with cash equivalents as "short-term, highly liquid investments" that will mature within three months or less after being acquired by the holder. We support retaining cash equivalents in cash for cash flow statement purposes as well as the statement of financial position. Pure “cash” is a very small number as we typically hold cash balances in cash equivalents. Therefore, we believe the most relevant number for insurance entities is cash and cash equivalents and this combined amount would provide the most useful information to analysts.

13. Paragraph 3.19 proposes that an entity should present its similar ***assets and liabilities that are measured on different bases*** *on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?*

Separately presenting assets and liabilities measured on different bases in the primary financial statements could significantly increase the number of line items. We believe that this expansion could result in a less readable and useable set of financial statements. While we have no objection to disaggregation for the purpose of providing more decision-useful information, we believe that with respect to different measurement bases, continuing to disclose such information in the footnotes may be preferable to adding a multitude of reporting line items to the primary financial statements.

14. Should an entity present comprehensive income and its components in a ***single statement of comprehensive income*** *as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?*

We agree with the board’s recommendation supported by several research studies that presenting all components of comprehensive income in a single financial statement (i.e. in the

same location as compared to bifurcation, which requires users to search for the remainder of the pertinent information) is preferable. We do believe it is essential that the net income line be preserved and clearly displayed since this is an important piece of information serving as an indicator of the entity's performance.

15. Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income *relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?*

Since cohesiveness is important in the understanding of the financial statements, we support this concept with respect to the categories reported in other comprehensive income; i.e. other comprehensive income should be reported by the categories that gave rise to the income or loss, provided the category is reported separately on the balance sheet as well.

16. Paragraphs 3.42–3.48 propose that an entity should further disaggregate *within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses* by their function, by their nature*, or* both *if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?*

Disaggregation in the statement of comprehensive income should mirror the disaggregation in the statement of financial position and the statement of cash flows. We believe each financial statement should be disaggregated similarly so that it is possible to fully understand the impacts of the cash flows (or lack thereof) related to the disaggregated items. Disaggregation throughout the financial statements should be decided by management with the objective to provide decision-useful information to users. We are concerned that too much disaggregation may not produce the desired results, i.e., useful information to analysts and other users, and could possibly lead to added costs to preparers with limited benefit.

17. Paragraph 3.55 proposes that an entity should allocate and present income taxes *within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.*

We agree with the tentative conclusion stated in paragraph 3.55 that an entity should apply existing requirements for allocating and presenting income taxes in the statement of comprehensive income and not allocate taxes to operating, business and financing activities. The tax effects related to line items reported in other comprehensive income and discontinued operations should be reported separately with the item, however, so that the tax impact is separately distinguishable.

18. Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses*, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.*
(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

Some benefit could be provided by reflecting the balances by category, but additional detail such as by line item would be costly to provide. In addition, providing detail could add volatility to the affected line items when the volatility is a result of the foreign currency transaction gains and losses, most appropriately reflected in sum total or by category total.

19. Paragraph 3.75 proposes that an entity should use **a direct method of presenting cash flows** *in the statement of cash flows.*
(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?
(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?
(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

We do agree presenting the statement of cash flows under the direct method could provide useful information, as it shows the actual cash receipts and payments during the period, and is more consistent with the proposed cohesiveness objective, as explained in paragraph 3.78 of the Discussion Paper. However, we do not believe the benefits of the direct method presentation outweigh the costs companies would incur to implement the necessary changes. Please see our response to Question 20 for further discussion of the costs. In addition, the indirect method presentation provides meaningful information by focusing on the differences between net income and net cash flow from operations, as acknowledged by the FASB in SFAS 95, *Statement of Cash Flows*. SFAS 95 requires entities using the direct method in the statement of cash flows to also provide a reconciliation of net income and net cash flow from operating activities in a separate schedule. The Discussion Paper continues with this approach by proposing a reconciliation schedule, which would show all the information currently provided in an indirect method presentation. Many entities currently prepare the statement of cash flows using the indirect method and management uses this information to make business decisions. If the information provided by the direct method of cash flows was considered sufficiently valuable to management to outweigh the preparation costs, entities would already be preparing direct method cash flows for internal reporting purposes.

For these reasons, we do not believe entities should be required to prepare a direct method presentation. We recommend the provisions of SFAS 95 be carried forward without change, allowing entities the option of preparing the statement of cash flows under either the direct method or the indirect method. Entities choosing to use the direct method should provide a reconciliation of net income to net cash flow from operating activities as described in SFAS 95. We do not believe the reconciliation schedule proposed in the discussion paper should be required (see Question 23 for further discussion regarding the reconciliation schedule).

20. What **costs** *should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?*

The most significant costs will be the one-time implementation costs. In order to be able to track the level of detail necessary for an accurate direct method of reporting, companies currently using the indirect method would need to fundamentally redesign accounting systems and administration systems (e.g., insurance contract administration systems). These systems would need to be able to capture detail data in order to support the information needed for both the direct method of reporting and the proposed reconciliation schedule. This becomes more complex and costly for corporations that utilize multiple systems and/or functional currencies. In addition, new processes will need to be established to identify gross cash receipts and gross cash payments for transactions in which net settlement is used, such as reinsurance transactions with third parties. These additional implementation costs would come at a time when capital resources are already strained due to the current economic environment.

Additional ongoing costs will be encountered for (1) staff costs, as additional staff will be needed to classify new transactions, maintain the more complex and detailed systems, and perform internal controls testing and (2) external audit fees, which will increase due to the additional internal controls.

As previously stated in Question 19, we believe the implementation and ongoing costs that entities will incur to switch to the direct method presentation far outweigh the benefits the direct method will provide. Entities should be allowed the option to prepare the statement of cash flows under either the direct method or the indirect method, as currently permitted under SFAS 95.

21. On the basis of the discussion in paragraphs 3.88–3.95, should the ***effects of basket transactions*** *be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?*

We do not believe the effects of basket transactions should be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows. Using the example provided in the Discussion Paper in paragraph 3.91, we do not believe allocating the gain or loss resulting from the sale of a group of assets between the operating and investing categories would provide value-added information to the users of the financial statements. We believe the effects of basket transactions should be presented in the category based on the predominate source of those effects.

Chapter 4: Notes to financial statements

22. Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the ***maturities of its short-term contractual assets and liabilities*** *in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?*

For insurance entities, we believe that presenting assets and liabilities in order of liquidity on the face of the statement of financial position is more relevant. We also believe that an entity should present a maturity schedule of those assets and liabilities in the notes to financial statements and disclose maturity details of its short-term and long-term contractual assets and liabilities. This approach will provide users with information that is both reliable and relevant. The user will be able to assess an entity’s ability to meet its financial commitments as they

come due. However, the specific disclosure requirements should be detailed in other accounting standards, e.g., insurance and financial instruments, and not mandated herein.

23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements,
(c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

(a) Would the proposed reconciliation schedule *increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.*
(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.
(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

No, we believe that even though it might increase the users understanding, we believe that the costs overshadow the benefits. The preparation of this schedule may not even be practical for some companies. We believe that the information needed to complete the schedule is substantially the same as the information needed to prepare the Statement of Cash Flows on a direct basis. The costs associated with implementing the direct Cash Flows Statement will be significant. As stated previously, in order to capture the detail necessary to prepare the direct Cash Flows statement and proposed reconciliation schedule, there would need to be a redesign of current accounting systems. The recurring cost will be associated with the employees who prepare and validate the schedule and additional costs to maintain internal controls over the reconciliation.

In addition, if consistency is maintained between the indirect Statement of Cash Flows and the Statement of Comprehensive Income, users can see two of the major components of the reconciliation. In regards to fair value measurements and impairments, there are other disclosures that would give the user the same information. We believe that making the statements cohesive increases the users' ability to analyze data and gives further transparency to earnings reducing the need for a reconciling schedule. Therefore, we believe that the costs of preparing the schedule exceed the benefits that it would provide.

24. Should the boards address further disaggregation of changes in fair value *in a future project (see paragraphs 4.42 and 4.43)? Why or why not?*

No, we believe this will make the statement more confusing. There would be little value added, because regardless of how fair value is calculated or bifurcated it can always fit into the categories of recurring and non-recurring. When there are changes to fair value rules it can be presented in a separate disclosure.

25. Should the boards consider other alternative reconciliation formats *for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B,*

paragraphs B10–B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income?
Why or why not?

Based on our response to question 23, we do not believe that the boards should consider alternative formats for the reconciliation of cash flows. We acknowledge that the alternative examples may provide more relevant information for some companies. However, the alternative formats would still impose reporting costs to financial statement preparers in excess of expected benefits to financial statement users. In addition, we believe the alternative formats are overly detailed and potentially confusing, and may obscure important information that could be useful to financial statement users.

26. The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to ***unusual or infrequent events or transactions*** *that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.*
(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

We note that the IASB does not support including information in the reconciliation schedule about unusual or infrequent events or transactions because there is no notion of unusual or infrequent events or transactions in IFRSs. We further note that the revised IAS 1 issued in 2003 prescribed that "no items may be presented on the face of the statement of income or in the notes as extraordinary items".

However, we believe that users may consider information about unusual or infrequent events and transactions to be decision-useful. Such information may enable users to identify recurring/sustainable trends and form expectations about future liquidity and financial flexibility. This seems to us to be a reasonable information need that could be provided in the notes to the financial statements.

We question whether this information can be provided in an objective manner and whether the use of a memo column in the reconciliation schedule is the best way to bring this information to the user's attention. We believe management should be allowed to use discretion in providing additional decision-useful information and we support a single disclosure that would include information about events that have affected individual lines in the statement of comprehensive income.

(b) APB Opinion No. 30 Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

The DP notes (in paragraph 4.51) that an entity can include events or transactions that do not meet the definitions of APB 30 but are similar to items that are unusual in nature or occur infrequently. Producing a viable definition of terms such as "unusual" and "infrequent" events

and transactions is always very difficult, especially when IFRSs represent a principle-based set of standards. We do not believe the definitions are too restrictive. However, we are not supportive of the reintroduction of extraordinary items by another name.

(c) Should an entity have the option of presenting the information in narrative format only?

We believe a narrative format would be a viable alternative to the memo column, if a reconciliation of cash flows is required. A narrative would meet the board's objectives of cohesiveness and disaggregation, while allowing greater flexibility to provide decision-useful information through the eyes of management.