



Michael Monahan
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September 25, 2012

Ms. Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re:
Proposed Accounting Standards Update, Disclosures about Liquidity Risk and Interest Rate Risk –
Financial Instruments (Topic 825)

Dear Ms. Seidman:

The American Council of Life Insurers (ACLI)¹ thanks you for the opportunity to comment on the “Disclosures about Liquidity Risk and Interest Rate Risk – Financial Instruments (Topic 825) – Exposure Draft,” (“ED”) issued June 27, 2012. The following represents our general comments and answers to the ED questions for preparers of financial statements.

GENERAL COMMENTS

While the intentions of the proposed guidance are to provide financial statement users with additional decision-useful information about exposures to liquidity risk and interest rate risk, we believe the proposed disclosures are inaccurate reflections of the liquidity and interest rate risks that a life insurance entity faces. We do not believe the proposed disclosures achieve a high-level of comparability or provide investors with an improved understanding of an enterprise’s risk management than what is already provided under SEC requirements in Management’s Discussion and Analysis (“MD&A”). In the following general comments to the Board, we highlight initial concerns, discuss challenges, and suggest proposals, focusing on the usefulness, operationality and auditability of the proposed disclosures.

¹ The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI advocates in federal, state, and international forums. Its members represent more than 90 percent of the assets and premiums of the U.S. life insurance and annuity industry. In addition to life insurance, annuities and other workplace and individual retirement plans, ACLI members offer long-term care and disability income insurance, and reinsurance. Its public website can be accessed at www.acli.com.

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SCOPE and DEFINITIONS

We have significant concerns regarding the application of the disclosures to all financial institutions as defined by the ED. Within the ED, a financial institution refers to entities or reportable segments for which the primary business activity is either to: a) earn, as a primary source of income, the difference between interest income generated on its earning assets and interest paid on borrowed funds, or b) provide insurance (825-10-50-23A). The first criterion is indicative of a banking entity's primary business activity and may be acceptable. On the other hand, the inclusion of all entities that provide insurance is overly simplistic and fails to consider the diversity in business activities of insurance companies and their reporting segments. Many insurance companies include entities, which may or may not be reportable segments, such as a broker-dealer or mortgage servicing and asset management entities, whose primary business activity would not meet the criteria of a financial institution. To include in the definition of financial institutions "entities that provide insurance" and then require the disclosure for all reportable segments of the insurance entity does not align with the business model or risk management strategy of an insurance company.

We are concerned that an unintended consequence of the proposal would lead companies to different conclusions regarding whether similar reportable segments are financial institutions. It is common for companies to have non-financial institution business combined with financial institution business in a reportable segment. For example, broker-dealer distribution of insurance products may be reported within an insurance segment at one entity but within a non-financial institution segment at another. Depending on the relative significance of the types of business mix in the segment, these companies could come to different conclusions regarding whether or not the broker-dealer was included within their financial institution disclosures. Consequently, similar business models could reach different conclusions resulting in incomparable disclosures. We recommend the Board allow companies to provide financial institution disclosures at the level of disaggregation which they determine would be most meaningful to users.

There is a lack of clarity among our member companies with regards to how to include certain insurance products within the disclosures. For example, it is unclear how to report financial assets and liabilities related to certain consolidated investment companies, and separate accounts. We recommend for an entity, whose liabilities can only be settled with assets of that entity (i.e., there is no recourse to the assets of the parent), to be excluded from the disclosure requirements when those assets and liabilities are excluded from management's evaluation of interest rate and/or liquidity risk—as including these entities in the proposed disclosure requirements would be misleading.

While we understand one of the Board's goals is to provide meaningful information regarding an entity's risk management, an insurance entity's management of liquidity and interest rate risk are complex, involve many forward looking assumptions and significant management judgment. Therefore, the analyses cannot be accurately reflected within the proposed tables and qualitative discussions. For example, the proposed liquidity analysis is not meaningful when a company utilizes a centralized treasury function to manage liquidity which leads to certain segments not holding cash or other liquid assets. Furthermore, the prescriptive tabular proposal does not align with analyses insurance companies utilize for risk management strategies.

In the Basis for Conclusion (paragraph BC 17), the Board noted that in order to enhance the disclosure's comparability and usefulness as well as reduce subjectivity and improve auditability of the proposed interest rate risk disclosures, the decision was made to exclude the impact of forecasting and strategy from the disclosures. The Board further concluded (in paragraph BC 40) that to the extent the results of the proposed disclosures differ from an entity's risk management strategy, the qualitative disclosures would provide an opportunity to explain the differences. While we acknowledge that the qualitative disclosures may assist in understanding the quantitative disclosures, we are concerned that eliminating the consideration of forecasting and strategy from the proposed disclosures renders the disclosures

misleading. In addition, by relegating the impact of an entity's forecasting and risk management strategy to qualitative narratives, we are concerned the resulting required qualitative narratives accompanying the tables could be considered less relevant when compared to the prominence of the information provided in the tabular disclosure.

In order to develop disclosures which will clearly and appropriately disclose liquidity and interest rate information, we suggest partnering with the SEC and other regulators to establish appropriate principles for liquidity and interest rate risk discussions outside of the audited financial statements. This would allow preparers the freedom to appropriately discuss management judgments, customers' likely actions, and other forward-looking items, as MD&A discussion is protected by safe harbor² rules; whereas, financial statement footnotes are not.

OPERATIONAL COSTS

We have the following significant operational concerns surrounding the proposed disclosures: 1) the amount of time and effort required to develop processes and systems to produce this information as currently proposed, 2) the development of controls surrounding these processes which previously were not required for financial statement footnote disclosures, and 3) the auditability of the information necessary to complete the proposed disclosures. For example, the budgeting process might be utilized to determine the impacts of changes in interest rates on earnings. Historically, we have not utilized the budgeting process to complete financial statement reporting, nor has it been subject to audit or process controls. New processes and controls would be instituted in order to ensure that the data inputs and information from the systems is accurate. These processes would include developing, testing and implementing internal control over financial reporting. The time and expense involved in implementing these systems adjustments, as well as the additional documentation and maintenance requirements, would be considerable. If the standard were adopted in its current form, we would require approximately 24 months to prepare systems, create and test new controls, etc., in order to enable adoption. With that in mind, we strongly urge the Board to consider coordinating the effective dates of the proposed disclosure amendments with the implementation of insurance contracts project so that re-work is not required once the insurance contracts project is finalized.

Another cost factor is that many of the inputs, analyses, and management's subjective assumptions utilized in the disclosure process would likely require specialized expertise on the part of audit teams, increasing audit expenses. We believe that absent changing the disclosures, significant amounts of judgment will be inherent in the proposed liquidity disclosures, which will likely be unauditably by traditional audit techniques and, may instead, only be supported by the management representation letter. During the process of making these judgments reasonable people may come to differing conclusions when faced with the same fact patterns; therefore it is unlikely that the FASB will achieve its goal of comparability across organizations.

As we will discuss in greater detail below, the majority of any expenses incurred to adapt systems to provide information for the proposed disclosures would be for information not currently needed by our risk management processes as we do not use the proposed tables (in their proposed forms) to monitor liquidity and interest risks. These expenses do not "strike an appropriate balance of costs and benefits" as indicated in the ED, and will be incremental to current overhead costs with no additional value. We disagree with the Board's assertion that the proposed disclosures align with information insurance companies prepare internally or information that could be disclosed without disproportional cost to insurance entities. If additional liquidity risk and interest rate risk disclosures are ultimately deemed appropriate within the financial statements, it is imperative they meet the needs of users by reflecting the actual risk management strategies of a company.

² Protect management from liability for making financial projections and forecasts.

Whatever decisions are made regarding the information to be provided, a quarterly reporting requirement will make it much more difficult and expensive for companies to meet already accelerated filing deadlines. We do not anticipate the general message regarding an entity's exposure to and management of liquidity risk and interest rate risk to change significantly from quarter to quarter, and we recommend the Board require a company to disclose quarterly only if the results change significantly from year-end.

CONVERGENCE

While we recognize the ED reflects the Board's consideration of existing disclosure requirements in IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"), we support a principled approach similar to IFRS 7's instead of the ED's prescriptive rules, but would recommend these disclosures be incorporated within MD&A disclosures. In contrast to the proposed disclosures, IFRS 7's disclosure requirements balance financial statement users' desire to receive comparable information and the recognition that: a) entities are not exposed to the same risks and b) entities manage risk in different ways. Further, we believe that a principles-based accounting standard will allow us to discuss our complex risk management procedures. Insurance companies manage risk differently with incomparable assumptions, and the rigid tabular disclosures give the illusion of comparability, when in fact, they result in inadequate, irrelevant and misleading information. We request the Board to consider the IASB's decision to establish minimum disclosure requirements instead of prescribing uniform tabular disclosure. This change will further limit the additional compliance costs with complying with the proposed standard and eliminate potentially conflicting disclosures for companies preparing financial statements under both IFRS and U.S. GAAP standards.

In addition to the preceding general comments, we provide the following comments for each of the specific disclosure tables proposed for your consideration:

Liquidity Gap Analysis

This table does not align with an insurance company's management of liquidity. We find unanimous consensus among insurance companies on this point. While this model may fit a bank's view of liquidity, we do not agree the approach works for all entities and we recommend further outreach and discussions with non-bank entities to provide the Board with additional perspectives on liquidity risk management analyses and methodologies.

One specific concern regarding this table is the requirement to report financial assets and liabilities based on expected maturities. Paragraph 825-10-50-23J seems to recognize that significant judgment is required regarding expectations of maturities and for any changes in the basis (assumptions) for those expectations. Expectations of maturities within an asset class would not be homogeneous so that the identification of classes would not only require more detail, but a confusing overlap of disaggregation based on the "nature, characteristics, or risks of the financial instruments" (paragraph 825-10-50-23E).

For an insurance company, the concluding lines of this table are misleading and not a fair measure of an insurance company's management strategy or relevant view of liquidity position. The table implies reinvestment risk when little reinvestment risk would actually exist for many insurance contracts. Further, the table excludes material, significant cash flows such as largely predictable contractual interest and premiums for inforce policies. Additionally, as the table is to reconcile to the balance sheet, the expected maturities would be subjected to volatility due to fair value change in the invested assets as most insurance company portfolios are reported at fair value with changes reported in other comprehensive income. We believe that the information in this table, even with extensive explanatory narrative, would not provide appropriate information and could be misleading.

As indicated in our general comments, this table is possibly feasible with significant system and process enhancements; but would not be meaningful with respect to actual liquidity management (e.g., intention and ability to roll/reinvest financial assets).

Insurance contract liabilities present special difficulties for bucketing in this table. General long-term assumptions and estimates would not be meaningful to be used to depict short-term expected settlement of obligations.

Within insurance companies, asset-liability management (“ALM”) is dynamic and interrelated; it is scenario based and uses stochastic or random models to bracket risk profiles in dynamic market environments, and it is impossible to quantify on a static basis. ALM analysis required by regulators results in an opinion by a qualified actuary, not a numerical assessment. It is the purview of the insurance industry regulators to monitor insurance company solvency, which is done using a basis of accounting which is entirely different from U.S. GAAP. We believe the information sought by this table, and all proposed liquidity tables, is more appropriate in an MD&A discussion, allowing a fuller discussion by management of risk management controls.

Cash Flow Obligations

Non-financial institution subsidiaries of insurance companies do not typically hold these types of obligations at the segment or legal entity level; where they do they are immaterial to the overall company. Funding of the insurance enterprise’s businesses is often done at a corporate level. Where segments include financial and non-financial institution business (e.g., an insurance company and a consolidated broker-dealer), it is not clear how the segment’s information should be parsed.

Available Liquid Funds

Life insurance companies generally have large portfolios of longer-term liquid investments that are used to manage liquidity risk, and we therefore agree that providing a table that highlights available liquid funds is a relevant factor in a user’s assessment of liquidity risk. We recommend the Board clarify the example in the ED, because the segregation of the example table seems to move away from a reportable segments view to a legal entity orientation. Some financial institutions contain more than one broker-dealer, each of which are subsumed in a financial business reporting segment. So, again, this information creates an artificial view of an insurance enterprise’s business. Liquidity is not necessarily fungible across legal entities, so this semi-consolidated view is not providing appropriate or meaningful information.

Repricing Gap Analysis

The repricing gap analysis is more appropriate for pure spread business where both assets and liabilities are fixed in nature and have automatic reset rates. Therefore, the disclosure is inappropriate for most common flexible life insurance such as universal life for non mutual life insurers, participating life for mutual insurance entities, and most other life insurance business. In some cases such as universal life, the rates can be reset at any time, and it’s unclear how those would be reflected in the table. The proposed analysis implies repricing is at market, and therefore implies risk of economic loss if interest rates increase. In fact, little such risk exists for many insurance contracts.

The table is not applicable or appropriate to insurance company business management, which is exemplified by the line items not reflecting how an insurance company evaluates its adequacy of its ALM strategy. An insurance company does not distinguish between interest earning and non-interest earning; both interest yield and asset appreciation are important components of our overall ALM. Although interest rates and asset valuation are interrelated, the contractual repricing of financial instruments does not communicate the risk management of these items and ignores hedging strategies which are a significant component of risk management. Additionally, for a significant portion of an insurance

company's portfolio, e.g., derivatives and structured assets which are some of the most widely used investment vehicles, cash flows are not tied to contractual reset dates.

Within the table, the total carrying amount column cannot tie to the balance sheet based on financial/non-financial business segments, because separate segment balance sheets are not generally developed. While it is an interesting idea, there is not enough detail provided in the table (nor can there be) to be meaningful; too many assumptions would be required, including forward-looking information, for meaningful information to be created.

Interest Rate Sensitivity

This table is our member companies' biggest concern. As previously noted, without the use of forward-looking expectations, prohibited by the ED, the proposed interest rate sensitivity analysis is very misleading for life insurance entities with significant discretionary business such as universal life or participating business. For example, under the new insurance contracts standard, liability reserve calculations will include interest credits and discretionary dividends that are often projected decades into the future.

If an instantaneous interest rate decline of 2% is assumed (one of the required hypothetical yield curve shifts) and all other assumptions are held constant (most notably the projected crediting rates or discretionary dividends), the projected impact on net income/equity will show a significant loss. The decline in interest rates (and therefore discount rate) would increase the value of an insurance company's longer duration liabilities significantly. In reality, net income/equity would change minimally, if at all, as the future projected crediting rates or dividends would be reduced to reflect the lower return on expected reinvestments of maturing assets, and the liability would not increase to the extent indicated.

Other policyholder behavior assumptions such as lapse rates and policy loan utilization would also change as interest rates change. As these best estimate assumptions are also included in the balance sheet reserve liabilities, they should also be adjusted in any related interest sensitivity analysis. Additional disclosure of assumption changes may be appropriate to help explain the projected impact.

Although it is similar to internal earnings at risk analyses, the information for managements' internal analyses comes from very complex revenue projections and budgeting systems that are never audited. To make the proposed disclosures meaningful, they would need to be deconstructed according to entity-specific risk management profiles and provide much more hypothetical, forward-looking information across all financial and non-financial assets and liabilities.

The expertise required to audit these types of complex investment algorithms would be significant. Further, we do not believe it is possible to take complex management skill/judgment and put it in a schedule, even with extensive narrative.

We further believe changes in U.S. GAAP Shareholder's Equity are not an appropriate way to measure interest rate risk. An insurance company's ALM is not managed to U.S. GAAP Shareholder's Equity. Increases/Decreases in Shareholder's Equity as presented in this table are not meaningful to most shareholders because assets are marked-to-market, liabilities are carried at book value under current GAAP, and therefore, movement in shareholder's equity does not reflect either solvency or ability to pay dividends. If the interest sensitivity analysis ultimately uses balance sheet amounts showing the projected impact on net income/equity, we recommend allowing for the dynamic adjustment of reasonable forward-looking expectations such as crediting rates and participating dividends. Without such adjustment, the analysis will be misleading.

Importantly, we strongly believe that while this information might be appropriate for MD&A, it is clearly not for financial statement reporting since it crosses the fact-based line and moves too far into the subjective realm.

RECOMMENDATIONS

With the objective to provide financial statement users with additional decision-useful information about exposures to liquidity risk and interest rate risk, we recommend the following alternatives to the proposed disclosures:

- Liquidity Risk- We believe the Board should partner with the SEC to leverage and enhance the current SEC Regulation S-K, Item 303(a)(5), *Tabular disclosure of contractual obligations*, with summarized asset information regarding a company's expected total cash flows on their investment portfolio categorized in the same time intervals of Item 303. This would allow preparers the ability to discuss their judgments, actions, and outlooks without the handicap of the financial statement's reliance on auditable historic information.
- Interest Rate Risk- Consistent with our overall recommendation, any analysis of interest rate risk should be provided in the MD&A. We also recommend the final accounting guidance allow management to apply its own judgment in determining the most meaningful way to convey its interest rate risk to users. Management may decide to provide qualitative discussion of its interest rate risk or may decide to provide a key metric that is relevant to its interest rate risk management approach (e.g., duration measurements, economic value, embedded value, etc...), any of which may incorporate forward looking assumptions.

The following Appendix provides answers to the specific ED questions in light of our expressed views.

Sincerely,



Michael Monahan
Senior Director, Accounting Policy

APPENDIX QUESTIONS FOR RESPONDENTS

Questions for Preparers and Auditors—Liquidity Risk

Question 1: For a financial institution, the proposed amendments would require a liquidity gap table that includes the expected maturities of an entity's financial assets and financial liabilities. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Yes. We do not believe that this table aligns with liquidity management in an insurance enterprise. An overarching concern with respect to all of the tables in this disclosure is the requirement to a) distinguish by reportable segments, and b) further distinguish by financial and non-financial institution segments. This view of insurance enterprises consolidated financial information introduces a parsing along lines not currently available within the processes and systems used. We believe the cost to introduce appropriate processes, systems enhancements, controls documentation and management testing, as well as external audit would far outweigh the benefit. As we've indicated in our general comments, we suggest partnering with the SEC, as the advocate for the users of financial information, to enhance the liquidity risk discussions in Management's Discussion and Analysis ("MD&A"). This would allow preparers the ability to discuss their judgments, actions, and outlooks without the handicap of the financial statement's reliance on auditable historic information. This discussion will complement the current SEC Regulation S-K, Item 303(a)(5), *Tabular disclosure of contractual obligations*.

We have operational concerns regarding the quarterly reporting requirement for this disclosure, as it will make it much more difficult and expensive for companies to meet already accelerated filing deadlines. We do not anticipate the general message regarding an entity's exposure to and management of liquidity risk to change significantly from quarter to quarter, and we recommend the Board require a company to disclose quarterly only if the results change significantly from year-end.

Question 2: For an entity that is not a financial institution, the proposed amendments would require a cash flow obligations table that includes the expected maturities of an entity's obligations. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Please see our operational concerns discussed in Question 1. This question implies the disclosures are required to be performed at an entity level, yet the proposal seems to require disclosure at a reportable segment level and not at a legal entity level, which are very different and overlapping. In addition, expected maturities, within the definition of this proposal would have to be developed apart from current views and management of financial assets and liabilities.

Question 3: The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. *Expected maturity* is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term *expected maturity* is more meaningful than the term *contractual maturity* in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.

While we agree that expected maturity is more relevant than contractual maturity, we do not agree with presenting carrying value in a discourse related to liquidity risk (Liquidity Gap analysis) where an asset or liability's carrying value is irrelevant for purposes of evaluating liquidity risk. Expected cash flows, not carry value, are used to evaluate liquidity risk and incorporate interest income, premiums, reinvestment

decisions, and expected claim payments. Even though expected maturity is implicitly considered when developing expected cash flows, any disclosure related to liquidity risk that is not based on expected cash flows would not result in decision-useful disclosures and could be misused or misinterpreted. Similar to the comments made within our letter, the forward-looking assumptions that are necessary when disclosing information on expected cash flows are not appropriate for footnote disclosures and are more appropriate within MD&A.

In order to more closely meet the objectives of the Board, we recommend that the Board work with the SEC to enhance the existing liquidity disclosures within MD&A by incorporating financial assets into the contractual obligations disclosure to show expected cash flows from assets along with the expected cash flows from liabilities.

Question 4: The proposed amendments would require a quantitative disclosure of an entity's available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

No, we do not see significant operational concerns with this table; although, we do not believe that the available liquid funds table presents an accurate or informative view of the liquidity risk and management of insurance contracts and the instruments that back them. In addition, the question asks about an entity, while the disclosures require a segmented view. For an insurance enterprise, financial and non-financial liquidity is managed across business lines and from a group perspective, as well as with respect to legal entities. We do not believe that the available liquid funds table presents an accurate or informative view of the liquidity risk and management of insurance contracts and the instruments that back them.

Question 5: For depository institutions, the proposed Update would require a time deposit table that includes the issuances and acquisitions of brokered deposits during the previous four fiscal quarters. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

ACLI is an insurance industry trade organization, and our members interpret the term "depository institutions" to primarily include banks and credit unions, not insurance companies. We note that the term "depository institutions" is not defined in U.S. GAAP, and would urge the Board to define the term and clarify at what level an entity would assess whether or not it is a depository institution.

Question 6: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?

We do not believe the proposed amendments will provide meaningful or clear information for users of insurance company financial statements. While this may fit a bank's view of liquidity, we recommend further discussions with non-bank entities to provide the Board with a more panoramic view of liquidity assumptions, analyses, and methodologies.

The proposed amendments do not provide users with an accurate, comprehensive account of an entity's risk management strategy and will mislead users of the financial statements. For example, the "liquidity gap analysis" as proposed in the ED is more akin to asset-liability management ("ALM") disclosure, and the latter's objective may contradict that of the former. The analysis is materially misrepresentative of life insurance entities because it reflects an artificial mismatch of assets and liabilities, implies significant reinvestment risk should interest rates decrease, ignores asset reinvestment and future adjustments to crediting rates, and excludes material, significant cash flows such as largely predictable

contractual interest and premiums. We believe that this table, even with extensive explanatory narrative, is misleading and not a fair measure of an insurance company's management strategy.

Within insurance companies, ALM is dynamic and interrelated; it is scenario based and uses stochastic or random models to bracket risk profiles in dynamic market environments, and is impossible to quantify on a static basis. ALM analysis required by regulators results in an opinion by a qualified actuary, not a numerical assessment. It is the purview of insurance industry regulators to monitor insurance company solvency which is done using a basis of accounting which is entirely different from U.S. GAAP. We believe the information sought by the proposed liquidity tables is more appropriate in an MD&A discussion, allowing a fuller discussion by management of risk management controls.

Questions for Preparers and Auditors—Interest Rate Risk

Question 13: The interest rate risk disclosures in this proposed Update would require a repricing gap table. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Yes, we foresee significant operational concerns in complying with this requirement. The primary concerns and restraints center around the same issues we have for all of the tables and information in this ED, which are: a) the requirement for enhancement to our processes and systems to obtain and prepare information not currently available or used in this format, b) the lack of relevance of the information in relation to the way management analyzes and uses information around interest rate risk, and c) the increased complexity and cost of auditing a new and separate set of financial information for the purposes of financial reporting only.

Question 14: The interest rate risk disclosures in this proposed Update would include a sensitivity analysis of net income and shareholders' equity. Do you foresee any significant operational concerns or constraints in determining the effect of changes in interest rates on net income and shareholders' equity? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Yes. We have many operational concerns surrounding the proposed disclosure, but our member companies' biggest concern is that the interest rate risk sensitivity is misleading with respect to the methodologies used by preparer insurance entities. Our main operational concern with this table is that the information required for the disclosure includes managements' internal analyses which come from very complex revenue projections and budgeting systems that are not currently audited. To make the proposed disclosures meaningful, they would need to be deconstructed according to specific risk management profiles and provide much more hypothetical, forward-looking information. The disclosures should reflect primary risk mitigation tools of life insurers (dividends and flexible crediting rates). Similarly, best estimate assumptions reflected in the balance sheet reserves, such as reinvestment strategies, policy loan utilization and lapse rates would also need to be updated for the disclosures not to be misleading.

The expertise required to audit these types of complex investment algorithms would be significant. Further, we do not believe it is possible to take complex management skill/judgment and put it in a table under the presumption of comparability, even with extensive narrative.

We further believe that changes in U.S. GAAP Shareholder's Equity are not an appropriate way to measure interest rate risk. An insurance company's ALM is not managed to U.S. GAAP Shareholder's Equity. Increases/Decreases in Shareholder's Equity as presented in this table is not meaningful to most shareholders because assets are marked-to-market, liabilities are carried at book value under current GAAP, and therefore, movement in shareholder's equity does not reflect either solvency or ability to pay dividends.

Question 15: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to understand your entity's exposure to interest rate risk? If not, what other information would better achieve this objective?

No, we do not think that the proposal would provide sufficient information for users. In addition to the concerns expressed in response to Question 14, we believe that a discussion of managements' outlook regarding interest rate sensitivity would be better contained in the MD&A section. This would provide more current and relevant information about managements' views and concerns with respect to the interest rate environment and its impact on asset/liability matching, as well as protecting proprietary information regarding strategies. The proposed amendments ignore the impact of, and management's reaction to, a prolonged low-interest rate environment. We strongly believe that users would benefit from preparers' discussion of an entity's reaction and business strategy in such an environment, as we are currently experiencing.

Questions for All Respondents

Question 20: The amendments in this proposed Update would apply to all entities. Are there any entities, such as nonpublic entities, that should not be within the scope of this proposed Update? If yes, please identify the entities and explain why.

All of our member companies, including nonpublic entities, believe that this ED proposes onerous requirements that are misleading, not beneficial to the users of our financial statements (since the information would be stale and overly simplistic) and not cost-effective. We have strong concerns about the increased burden to both the organizations and the auditors for little incremental benefit. One operational concern specific to a nonpublic company is that the requirements are proposed at a reportable segment level. The Board does not address how nonpublic companies will look at reportable segments considering they currently are not required to disclose reportable segments, a term defined only for public company disclosure.

Question 21: Although the proposed amendments do not have an effective date, the Board intends to address the needs of users of financial statements for more information about liquidity risk and interest rate risk. Therefore, the Board will strive to make these proposed amendments effective on a timely basis. How much time do you think stakeholders would require to prepare for and implement the amendments in this proposed Update? Should nonpublic entities be provided with a delayed effective date? If so, how long of a delay should be permitted and why? Are there specific amendments that would require more time to implement than others? If so, please identify which ones and explain why.

We strongly urge the Board to consider coordinating the effective dates of the proposed disclosure amendments with the implementation of the insurance contracts project. In our experience, we believe that the process and system changes required by the proposed amendments would take significant time to spec, program, test and implement. We believe that, given all of the operational concerns identified in the responses above, for public entities, this information would not be auditable in less than two years. For non-public entities, we believe that the Board should allow a later effective date. We also believe that additional training and development would be required for both auditors and finance departments of smaller, non-public entities.

Question 22: Do you believe that any of the amendments in this proposed Update provide information that overlaps with the SEC's current disclosure requirements for public companies without providing incremental information? If yes, please identify which proposed amendments you believe overlap and discuss whether you believe that the costs in implementing the potentially overlapping amendments outweigh their benefits? Please explain why.

Absolutely yes. We have indicated this in our responses in the general section and in our responses to the questions above.