



AMERICAN ACADEMY *of* ACTUARIES

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January 15, 2021

Ms. Kim Kushmerick
Associate Director
AICPA
1345 Avenue of the Americas, 27th Floor
New York, NY 10105

Dear Ms. Kushmerick,

Thank you for the opportunity to conduct a fatal flaw review of the two draft papers referenced below. On behalf of the American Academy of Actuaries¹ Financial Reporting Committee, we do not see anything in the Issue 4CD paper that we consider to be a fatal flaw. We do note some parts of the Issue 3 paper that could be more clearly stated to avoid misunderstanding of the AICPA Financial Reporting Executive Committee (FinREC) intent as we understand it.

Parts of **paragraph 10** are confusing and could be misinterpreted.

- This paragraph begins by citing a specific exclusion in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 944-40-25-25D(b) from the protection described in FASB ASC 944-40-25-25C.
- It then states that this exclusion does not explicitly address health insurance benefits.
- It then counters that lack of explicit reference with a specific reference elsewhere (FASB ASC 944-20-15-12) that disability benefits of a universal life-type contract are to be accounted for in a manner consistent with life insurance. That counterargument, however, begins with the word “Further”—suggesting that it is an extension of the previous observation rather than a contrast. We believe that beginning this sentence with the word “However” (rather than “Further”) would help to avoid confusion.
- The final sentence refers to “protection as described in FASB ASC 944-40-25D(b).” Other than missing the section number 25 in this reference, the “protection” is described in paragraph 25-25C, not paragraph 25-25D(b). This could also confuse readers, especially when combined with the confusing opening of the previous sentence. We believe that the beginning of this sentence could be more accurately and clearly worded

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

as “As a result, FinREC believes that, consistent with FASB ASC 944-40-25-25D(b), the protection described in FASB ASC 944-40-25-25C also does not include...”

As worded, **paragraph 11** concludes that any “annuitization guarantee of the interest rate or of the annuitization amount” as described in **paragraph 11(b)** would involve other-than-nominal capital market risk. We are aware of widespread agreement that such guarantees involve capital market risk, but this is the first time we’ve seen a blanket statement that the capital market risk in all such guarantees is other-than-nominal. We wonder whether FinREC’s intent would be better expressed by removing “other-than-nominal” from **paragraph 11**, perhaps adding something about further assessment to determine whether the risk is other-than-nominal.

The lifetime withdrawal benefit as described in the first sentence of **Paragraph 11(a)** is technically incorrect. As worded, it refers to “withdrawal of a guaranteed percentage of the account value for the lifetime of the contract holder.” Unless that percentage is greater than 100%, such a guarantee would be meaningless since a “percentage of the account value” declines as the account value declines and becomes zero when the account value is exhausted. A more accurate description would be “withdrawal of a specified amount for the lifetime of the contract holder, including amounts that are specified as a percentage of the account value at the time the guaranteed withdrawal option is exercised.”

Regards,

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Chairperson, Financial Reporting Committee

Leonard Reback, MAAA, FSA
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the American Academy of Actuaries