



August 4, 2022

Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2022-003

Dear Ms. Salo,

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the *Proposed Accounting Standards Update, Financial Services--Insurance (Topic 944) Targeted Improvements to the Accounting for Long-Duration Contracts (LDTI)-Transition for Sold Contracts* (the Exposure Draft). We commend the FASB for its continuing efforts to respond to stakeholder feedback related to the adoption of LDTI, specifically for contracts that have been derecognized because of a sale or disposal before the LDTI effective date.

We support the proposed amendments to allow an insurance entity to make an accounting policy election to exclude contracts that have been derecognized because of a sale or disposal before the LDTI effective date from applying the LDTI guidance. Allowing this election will address concerns that the expected costs would outweigh the expected benefits but will not significantly reduce the extent of decision-useful information for financial statement users.

The appendix includes suggested clarifications and contains our detailed responses to the Questions for Respondents.

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If you have any questions regarding our comments, please contact Jill Butler at jill.butler@pwc.com.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



Appendix

Question 1—Information Usefulness: Would the amendments in this proposed Update reduce costs without significantly reducing the decision-useful information for investors and other financial statement users? Please explain why or why not.

We support the objective of the proposed amendments. We believe they adequately address concerns that the expected costs of applying the transition guidance to contracts that have been derecognized because of a sale or disposal before the LDTI effective date would outweigh the expected benefits. We do not anticipate that the proposed amendments would significantly reduce the extent of decision-useful information for investors and other financial statement users as contracts or legal entities sold and derecognized as of the LDTI effective date do not provide insights to an insurance entity's prospective cash flows and economics.

Question 2—Election Level: Do you agree that the accounting policy election, if elected by an insurance entity, should be consistently applied to all contracts that have been derecognized subject to the scope of the proposed amendments? Please explain why or why not.

Yes, we believe that the accounting policy election, if elected by an insurance entity, should be consistently applied to all contracts that have been derecognized because of a sale or disposal.

Question 3—Contracts: Do you agree that the proposed amendments should apply only to contracts that have been derecognized because of a sale or disposal of individual or a group of contracts or legal entities before the LDTI effective date? Please explain why or why not.

Yes, we agree that the proposed amendments should apply only to contracts that have been derecognized because of a sale or disposal before the LDTI effective date. We believe that including in the scope of this policy election contracts that continue to be recognized by the insurance company but are reinsured, for example, would significantly reduce the decision-useful information for investors and other financial statement users as the insurance entity still has the primary obligation for such contracts.

Question 4—Continuing Involvement: Do you agree that the accounting policy election should apply only when an insurance entity has no continuing involvement with the derecognized contracts other than as permitted in the proposed amendments? If not, please explain what forms of continuing involvement should be allowed or prohibited.

We agree that certain participation in the economic risks and/or rewards of the derecognized contracts should preclude an insurer from applying the proposed policy election. The term "continuing involvement," however, may not be clear because this term can have a different meaning when used in other sections of the Accounting Standards Codification, such as used in ASC 860. In addition, the proposed examples of continuing involvement may lead to confusion. For example, the proposed change to ASC 944-40-65-2(r1) describes a scenario that would preclude an insurance entity from applying the accounting policy election and refers to "a direct or indirect interest in an equity method investee or a consolidated entity that provides significant influence or continuing significant exposure to the risks and/or rewards of the derecognized contracts." This description does not clarify what constitutes "continuing involvement."

If the Board's intention is to preclude an insurance entity from applying the proposed policy election if they have either direct or indirect significant influence or control over the derecognized contract or



contracts, we recommend revising the proposed amendment to state that explicitly. If the Board's intention is to allow equity method investments recorded under ASC 323-30-s99-1 to apply the proposed policy election, they should also make that clear.

In addition, the proposed ASC 944-40-65-2(r1) refers to "significant exposure" but seems to encompass significant influence over insignificant exposure in the definition. We believe this should not preclude an insurance entity from making the election. We recommend the Board clarify whether the determining factor in the assessment is based on significant influence or significant exposure.

Further, the proposed ASC 944-40-65-2(r2) refers to "any other arrangement that allows for significant participation in the ongoing performance of the derecognized contract." The term "performance" could be interpreted to mean that an insurance entity will be precluded from applying the election only if they have significant participation in the positive economic results associated with the derecognized contracts. We believe insurance entities that have significant participation in either the positive or the negative economic results of the derecognized contracts should be precluded from applying the accounting policy election. We also believe the Board should clarify ASC 944-40-65-2(s1) that the arrangements described would be considered participation in the risks and/or rewards of the derecognized contracts if the compensation for the arrangements is based on the derecognized contracts' economic results.

Question 5—Disclosures: Do you agree with the proposed disclosure requirements? Please explain why or why not.

While we agree with the proposed disclosure requirements for all contracts that meet the criteria listed in the proposed amendments, we believe it would be helpful for the Board to clarify that these disclosures are additional to the disclosures required for contracts not subject to LDTI.