Michael Monahan
Director, Accounting Policy
(202) 624-2324 t (866) 953-4097 f
mikemonahan@acli.com

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Office of the Chief Accountant
Securities and Exchange Commission
100 F Street, NE, Washington DC 20549-1090

Re: File Reference No. 4-608 Solicitation of Public Comment on Consideration of Incorporating IFRS into the Financial Reporting System for US Issuers

INTRODUCTION

The American Council of Life Insurers (ACLI)[1] appreciates the opportunity to provide information in consideration of the SEC work plan to incorporate IFRS into the US financial reporting system. The ACLI 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 percent of the assets and premiums of the U.S life insurance and annuity industry. Among our member companies are a highly diverse set of financial reporting issuers, including small domestic, insurance-only companies; large, multi-national US filers; and variations in between. Consequently, a detailed, consensus response to the specific questions posed in the SEC's request for comment was not possible. Individual companies will provide, separately, specific information and responses. This comment letter provides more general input as regards our member companies' perspective on the general need and timeline for incorporating IFRS into the US financial reporting system.

CONVERGENCE

Several ACLI companies have commented to the FASB and the IASB regarding the importance of convergence of the accounting standards in accordance with the goals of the Memorandum of Understanding and expectations of G20 leaders. Most recently, these comments are documented in the more than 2000 comment letters to the FASB regarding the Financial Instruments Exposure Draft. Concerns around the lack of convergence include a lack of comparability and, similarly, a level playing field with regard to competition and capital markets; the burden of dissimilar standards on people, systems and other resources; and confusion on the part of investors and shareholders as standards evolve dis-synchronously.

Without convergence or the option to use IFRS in lieu of US GAAP, US companies that compete in global markets and/or with global companies in the US are facing tremendous costs and burdens. While there certainly is a cost to transition to IFRS, companies must be allowed to determine the most efficient and advantageous way and time to address these issues. Continued attempts toward convergence without the option to adopt IFRS leaves too much on the table for too long. In order to benefit US companies and free them to move toward economic recovery in tandem with the rest of the world, we recommend that the SEC continue to move toward allowing US companies to adopt IFRS.

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[1] ACLI 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 percent of the assets and premiums of the U.S. life insurance and annuity industries.

CONCLUSION

Based on the experience of ACLI foreign private issuer (FPI) member companies who have adopted IFRS as of 2005, we are aware of no significant legal, governance or regulatory issues that would be raised by allowing financial reporting under IFRS. Each company should be allowed to address its reporting needs based on the size, complexity, and competitive environment of its business. Insurance companies currently report under both US GAAP and Statutory reporting standards as appropriate. Companies who have adopted IFRS lead us to believe that the option of replacing IFRS for US GAAP would not place any significant limitations on a company that has sufficient time to evaluate and prepare for that transition.

We urge the SEC to consider in its work plan a timeline and adoption requirement that is flexible enough to allow companies of all sizes to implement IFRS as appropriate to their type, size and location of business. As we are sure the SEC is well aware, the current economic environment, competitive environment, and significantly changing regulatory environment has put unprecedented strains on the resources and adaptability of companies. At the same time, globalization of capital markets continues at a pace that will not allow US companies to continue to compete without a level playing field. We recommend that the SEC fulfill its intention to allow US companies to adopt IFRS in lieu of US GAAP as soon as practicable. We also recommend continued SEC support of the AICPA and other appropriate organizations in the education process that will provide professional credentials in the area of IFRS.

Sincerely,

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Michael Monahan
Director, Accounting Policy

<u>Response to Specific Questions</u>

<u>Section I Contracts</u>

Question 1: To what extent and in what ways would incorporating IFRS into the financial reporting system for US issuers be likely to affect the application, interpretation or enforcement of contractual commercial arrangements such as financing agreements, trust indentures, merger agreements, executive employment agreements, stock incentive plans, leases, franchise agreements, royalty agreements, and preferred stock designations?

All contracts and relationships would have to be reviewed to assure that contractual covenants and anticipated outcomes under US GAAP would not be undermined by adopting International Financial Reporting Standards. The impact would also be determined by the degree of similarity/difference of IFRS to US GAAP. It is anticipated that a cross functional team would need to be designated, together with outside experts on accounting, IT and legal subjects, in order to address and integrate company-wide impacts.

Question 2: What types of contractual commercial arrangements aside from those specifically identified in the previous question would likely be affected by the incorporation of IFRS into the financial reporting system for US issuers, and in what ways?

Should IFRS also be adopted for Statutory reporting, we also believe that reinsurance contracts, which are sometimes used extensively by insurance companies, will require modification, as the adoption may change the way certain Statutory amounts are calculated or the meaning of certain Statutory amounts.

Question 3: With respect to existing contractual commercial arrangements, would the incorporation of IFRS into the financial reporting system for US issuers be treated differently as compared to how a change in an existing financial reporting standard under US GAAP would be treated today? If so, how?

Adoption of a new basis of accounting may or may not be treated differently than changes to US GAAP in a financial reporting system, depending on whether an individual company was having to add another basis to its IT systems in addition to US GAAP, Tax, Statutory, Management bases, or whether the company is replacing the programming for US GAAP with IFRS rules. As noted in question 1, with respect to existing contractual commercial arrangements, the degree of impact would also depend on the degree, significance, number and types of differences between IFRS and US GAAP. It is premature to be able to make any relevant generalizations for our insurance companies, given the significance of divergence between the two Boards on key accounting and reporting issues such as financial instruments and insurance contracts.

Question 4: To the extent that incorporating IFRS into the financial reporting system for US issuers would affect the application, interpretation, or enforcement of contractual commercial arrangements, how would parties to such arrangements most likely address such effects (e.g., by modifying the contract, or adopting multiple accounting systems)?

In general, our members recognize that adopting multiple accounting systems is fraught with risks and costs that we believe are best avoided. We believe most companies would prefer to modify contract wording, if necessary, to adjust for changes in financial reporting that might impact contractual commercial arrangements. However, where companies (e.g., large, public companies) maintain multiple accounting bases in their systems it is likely they would be able to adjust the US GAAP basis for the implementation of IFRS. We anticipate individual companies will provide more detail with regard to their situation and perspective.

Question 5: To what extent would any potential effects of incorporating IFRS into the financial reporting system for US issuers on the application of contractual commercial arrangements likely be mitigated or otherwise affected by providing for a transition or phase-in period for compliance with the incorporation of IFRS into the financial reporting system for US issuers? What length of a transition or phase-in period would be necessary to reasonably mitigate the effects? Are there any other means by which such effects can be mitigated or avoided?

Insurers are both preparers and users of financial statement information. For preparers of financial statement information, our member companies, representing a wide range of size, complexity and location, a transition period sufficient to engage resources company-wide and in various locations might be needed from, 2 to 3 years before adoption date, depending on the size and complexity of the company. To that end, some believe that adoption of IFRS should be an election available to company management and not a requirement for all companies. Clearly, small domestic insurers would not have the same needs, resources, or ability to bear the costs of transition that larger, more complex companies might have.

However, as large investors in the capital markets, our companies are concerned about the additional burden on our investment professionals to understand and analyze two sets of standards if adoption were optional. <u>*Convergence between the two bases of accounting remains a key factor in the decision.*</u>

<u>Section II Corporate Governance; Stock Exchange Requirements</u>

Question 6: To what extent and in what ways would incorporating IFRS into the financial reporting system for US issuers likely affect compliance with corporate governance and related disclosure requirements applicable to US issuers, such as stock exchange listing requirements relating to the composition and function of audit committees of the boards of directors and disclosure requirements regarding audit committee financial experts?

Documentation and references within the governance documentation would likely need to be updated. This, however, would seem to be a much smaller piece of the implementation workstream, and we would not anticipate that implementation of IFRS would significantly impact the governance process.

Regarding the specific requirements of the audit committee financial expert, we believe many of the required skills and experience possessed by the financial expert is knowledge that can be transferred and used in the application of any basis of accounting. In addition, considering the FASB and IASB convergence project (the accomplishment of which is critical), by default audit committee members will begin to obtain a knowledge of IFRS as these standards converge. We agree that the audit committee financial expert will require some education as will all parties preparing, using and receiving financial information. We believe that US business constituents would need a formal educational track, updated certifications, and sufficient time for compliance – up to 2 years. (See also Question 7).

Question 7: We understand that experienced professionals, including audit committee members, would likely need to enhance their knowledge of IFRS and develop further expertise, and we believe it would be important for audit committee members to do so in light of their responsibility for oversight of the preparation and audit of financial statements that are presented to US investors. To what extent would current members of boards of directors likely have the education or experience needed to meet the requirements of the definition of "audit committee financial expert" or the stock exchange listing requirements related to accounting or financial management expertise following the incorporation of IFRS into the financial reporting system for US issuers? Would there be adverse effects if an issuer were required to disclose that it does not have any audit committee financial experts while its audit committee members are in the process of obtaining the necessary expertise?

The degree to which professionals in any business environment would need additional education will largely depend on their current familiarity with US GAAP and the degree of convergence/divergence with IFRS when adopted. To the extent that IFRS differs from US GAAP and a company elects to adopt IFRS, audit committee financial experts should certainly be required to be proficient in all bases under which the company reports.

As indicated, the ACLI represents companies across the broadest range of sizes and expertise. We believe that adoption of IFRS should be optional for US companies and allowed once professional requirements are met. Current CPA license-holders should be required to update their education for IFRS where their function demonstrates the need for that knowledge. CPA certification for new applicants should require demonstrable proficiency in IFRS.

Further, we believe that financial experts possess certain skills and experience that are applicable under any basis of accounting, Considering the volume of recent accounting changes under US GAAP, we believe financial experts will apply the same vigor to understanding the accounting standards under IFRS which they have applied to understanding new accounting standards under US GAAP.

Question 8: To the extent that incorporating IFRS into the financial reporting system for US issuers would adversely affect board members' ability to meet the requirements or result in disclosure that the issuer does not have an audit committee financial expert, how would issuers and individual directors most likely address such effects (e.g., by additional training)? To what extent and in what ways would such effects be likely to differ from similar effects in jurisdictions that have adopted, or are in the process of adopting, IFRS?

Companies currently select board members based on their expertise in a number of areas. The US accounting community, including the AICPA and the Big 4 auditing firms, is currently engaged in offering formal and informal training on current accounting developments, including IFRS and US GAAP. Professionals are engaging in professional education in anticipation of meeting the needs of the companies they serve. We believe this broad-based educational initiative is foundational to the timeline and the ability of companies to adopt IFRS. As with other accounting and professional developments, we do not believe the adoption of IFRS would be significantly different.

Question 9: To what extent and in what ways would incorporating IFRS into the financial reporting system for US issuers likely affect an issuer's ability to comply with quantitative securities exchange listing standards?

It would be important for securities exchange listing standards to be evaluated by the exchanges and adapted to companies using IFRS basis to avoid any impact. Quantitative requirements would certainly have to re-evaluated by listed companies before the adoption of IFRS. However, the US exchanges currently list foreign securities and allow, under certain circumstances, filing under IFRS. Some ACLI foreign-based, member companies currently list their securities on US exchanges and adopted IFRS in 2005. Based on this experience, we are aware of no disadvantageous impact that would occur by allowing US companies the same option.

Question 10: To what extent would any potential adverse effects of incorporating IFRS into the US financial reporting system on issuers' compliance with corporate governance and related disclosure requirements likely be mitigated or otherwise affected by providing for a transition or phase-in period for compliance with the incorporation of IFRS into the financial reporting system for US issuers? What length of a transition or phase-in period would be necessary to reasonably mitigate the adverse effects? Are there any other means by which such effects can be mitigated or avoided?

Same as Question 5.

Question 11: To what extent would any potential adverse effects of incorporating IFRS into the US financial reporting system on issuers' compliance with quantitative stock exchange listing standards likely be mitigated or otherwise affected by providing for a transition or phase-in period for compliance with the incorporation of IFRS into the financial reporting system for US issuers?

While there are reasons for careful preparation and the option for a long-term transition period, as indicated in Question 9, we do not believe that exchange listing requirements would require additional transition time on the part of companies.

Question 12: Are there any corporate governance and related disclosure requirements other than those identified above that would be affected by incorporating IFRS into the financial reporting system for US issuers?

US GAAP corporate governance and disclosure requirements are currently under pressure and are likely to change tremendously. Consequently, it is not possible to respond to the impact of incorporating IFRS as both standards are in flux. Again, the degree of convergence achieved prior to adoption is a critical factor. Based on the past experience of some of the ACLI's large, foreign private issuers, a two to three year transition period was sufficient to allow US GAAP filers to analyze, adopt IFRS and incorporate the requirements into all aspects of the companies' financial reporting, corporate governance and disclosures, including education of constituents, systems and report updates, and governance/audit documentation.

<u>Section III Statutory Distribution Restrictions & Other Legal Standards</u>
Question 13: To what extent and in what ways would incorporating IFRS into the financial reporting system for US issuers likely affect the application of limits in state statutes on the ability of issuers to make distributions to holders

of equity securities, either through dividends or similar distributions in respect of those securities, or to repurchase such securities?

The primary statutory governance mechanism for ACLI members, as life insurance issuers, is the National Association of Insurance Commissioners (NAIC). Legal standards and requirements may vary from state to state, so an individual company's response to these questions could vary depending on the state of domicile. Consequently, we will defer to individual company responses for all questions in this section.

Question 14: Are there any particular distribution statues from any particular jurisdictions the application of which are especially likely to be affected by incorporating IFRS into the financial reporting system for US issuers? Which statutes, and why?

See response to question 13.

Question 15: To the extent that incorporating IFRS into the financial reporting system for US issuers would affect the application of statutes governing distributions to equity security holders, how would the jurisdictions affected (or issuers in such jurisdictions) most likely address such effects?

See response to question 13.

Question 16: To what extent would any potential effects of incorporating IFRS into the financial reporting system for US issuers on the application of statutes governing distributions to equity security holders be avoided or minimized by state law permitting the board of directors to rely on reasonable valuation methods, rather than on financial statements, in determining whether a distribution is permissible (e.g., when transitioning to IFRS, if the value of an asset is determined to be lower using IFRS than it would be using the current standard in US GAAP, would the board be able to make a determination that the value of the asset is higher than as calculated under IFRS)?

See response to question 13.

Question 17: To what extent would any potential effects of incorporating IFRS into the financial reporting system for US issuers on the application of statutory limits on distributions to equity security holders likely be mitigated or otherwise affected by providing for a transition or phase-in period for compliance with the incorporation of IFRS into the financial reporting system for US issuers? What length of a transition or phase-in period would be necessary to reasonably mitigate the effects? Are there any other means by which such effects can be mitigated or avoided?

See response to question 13.

Question 18: To what extent and in what ways would incorporating IFRS into the financial reporting system for US issuers likely affect the application of state statutes requiring a shareholder vote for a sale of "all or substantially all" of the issuer's property or assets? For example, would the determination of whether such a vote is required change as a result of a change in accounting standards?

See response to question 13.

Question 19: Are there any particular asset sale statutes from any particular jurisdictions the application of which is especially likely to be affected by incorporating IFRS into the financial reporting system for US issuers? Which statutes, and why?

See response to question 13.

Question 20: To the extent that incorporating IFRS into the financial reporting system for US issuers would affect the application of statutes governing sales of assets, how would the jurisdictions affected (or issuers in such jurisdictions) most likely address such effects?

See response to question 13.

Question 21: To what extent would any potential effects of incorporating IFRS into the financial reporting system for US issuers on the application of statutes governing sales of assets be avoided or minimized by state law permitting the board of directors to rely on reasonable valuation methods, rather than financial statements, in determining whether a shareholder vote is required to approve a sale of assets?

See response to question 13.

Question 22: To what extent would any potential effects of incorporating IFRS into the financial reporting system for US issuers on the application of statutes governing sales of assets likely to be mitigated or otherwise affected by providing for a transition or phase-in period for compliance with the incorporation of IFRS into the financial reporting system for US issuers? What length of a transition or phase-in period would be necessary to reasonably mitigate the effects? Are there any other means by which such effects can be mitigated or avoided?

See response to question 13.

Question 23: Are there any other state statutes the application of which is likely to be affected by incorporating IFRS into the financial reporting system for US issuers? To what extent and in what ways, and why?

See response to question 13.