February 4, 2025

Jackson M. Day
Technical Director
Financial Accounting Standards Board

Alex Casas
Financial Accounting Standard Board

Erin Cahill
Financial Accounting Standard Board

Re: Portfolio Layer Method Hedge Accounting for Liabilities

Dear Mr. Day, Mr. Casas, and Ms. Cahill,

On behalf of the Financial Reporting Committee and Life Financial Reporting Committee of the American Academy of Actuaries,[1] we appreciate the opportunity to comment on portfolio layer method (PLM) hedge accounting for liabilities. We encourage FASB to pursue a project to permit PLM hedge accounting for liabilities, whether restricted to insurance liabilities or more general. Based on our discussions with staff, it appears that PLM could address many if not all of the interest rate hedging issues that insurers face (as discussed in the Academy whitepaper, "Hedging and Risk Management"). We also believe that the resulting GAAP accounting would adequately reflect insurers' risk management practices and reduce the magnitude of non-GAAP measures reported by insurance companies.

Our understanding is that the intent of PLM is to only address interest rate hedges, although we believe it is also possible to use PLM to address other types of hedges. For example, the change in fair value of a variable universal life no-lapse guarantee can be determined based on the changes in benchmark interest rates, equity returns, and equity volatility. Nonetheless, if FASB is disinclined to address other types of hedges besides interest rates at this time, that would still improve accounting for the most prevalent hedges that are used (aside from market risk benefits, which are already at fair value so not an issue from a hedge accounting standpoint).

We would also encourage FASB to eventually consider a broader overhaul of the hedge accounting guidance that is now about 25 years old and has significant limitations that have been identified by stakeholders previously. PLM could be a part of any revised hedge accounting requirements, and the experience from applying PLM to liabilities can inform decisions about broader revised hedge accounting requirements. Some of the issues that could be addressed in such broader revision include:

- Hedging liability risks in a portfolio other than interest rate risks
- Hedging open portfolios
- Addressing dynamic hedging programs.

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[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 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.

If you have any questions or would like to discuss further, please contact Will Behnke, the Academy's policy project manager, risk management and financial reporting, at behnke@actuary.org.

Sincerely,

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