ACLI
Financial Security...for Life.

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September 29, 2017

Submitted Electronically to Sherry.Hazel@aicpa-cima.com

AICPA
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Subject: Proposed Statement on Auditing Standards – Forming an Opinion and Reporting on Financial Statements of Employee Benefits Plans Subject to ERISA, AU-C sec. 703

Greetings:

On behalf of the American Council of Life Insurers ("ACLI")[1], we appreciate the opportunity to provide comments in response to the AICPA Auditing Standards Board's April 20, 2017 Exposure Draft "Proposed Statement on Auditing Standards, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA" (the Exposure Draft"). ACLI supports efforts to improve the value and relevance of audit reports prepared on ERISA plans. It would benefit ERISA plan sponsors, plan participants and beneficiaries and the Department of Labor ("DOL") if both plan administrators and auditors clearly understood their roles and responsibilities with respect to plan audits, especially when some or all of the assets are held by a bank or insurance carrier. However, the reporting model set forth in the April 20, 2017 Exposure Draft would cause auditors to unduly raise the alarm in any case in which a plan sponsor applies a limitation on the scope of an audit as supported by current law, which is appropriate when working with a regulated service provider. We urge the AICPA to reject this approach.

The reporting model set forth in the April 20, 2017 Exposure Draft would create a problem rather than address one. The proposed reporting model seeks to raise questions in the minds of plan sponsors as to the adequacy and efficacy of relying on certified information from insurance companies and the work performed by independent auditors these companies engage.

The Exposure Draft references the DOL's May 2015 report: Assessing the Quality of Employee Benefit Plan Audits. This DOL report identifies deficiencies in plan audit quality. It also indicates that

[1] The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with approximately 290 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 95 percent of industry assets, 93 percent of life insurance premiums, and 98 percent of annuity considerations in the United States. ACLI member companies offer insurance contracts and other investment products and services to qualified retirement plans, including defined benefit pension and 401(k) arrangements, and to individuals through individual retirement arrangements (IRAs) or on a non-qualified basis. ACLI member companies also are employer sponsors of retirement plans for their own employees.

there has been an increase in the number of limited scope audits between 2001 and 2013. The report seeks to correlate plan audit quality to this increase in limited scope audit. The DOL hypothesizes that limited scope audits have contributed to a decline in audit quality as CPAs "have less incentive to focus on relevant audit areas when they know the engagement will result in their issuance of "no opinion" on the plan's financial statement." It is important to note that this is nothing more than a hypothesis with no demonstrable support. It would be more logical as well as more likely that an increase in limited scope audits may have occurred as a result of increased adoption of collective or pooled investment products.

If the DOL hypothesis were true, it does not call into question the prudence or benefits of the limited scope audit, but instead is an indictment of the CPAs who are failing to properly audit employee benefit plans. The report goes on to identify four key areas of non-compliance, none of which have any relationship to limited scope audits. AICPA should focus its efforts on ensuring that CPAs perform employee benefit plan audits in accordance with GAAS appropriately when presented with a limited scope audit, not raise alarms in the minds of plan sponsors as to the prudence of a limited scope audit. There is simply no support for the AICPA's conclusion that limited scope audit transparency and quality are problematic.

The limited scope audit promotes plan sponsorship by allowing employers to forego the expense of an audit on investment information certified by certain banks or insurance carriers. As banks and insurance companies are heavily regulated, auditing certified information is both redundant and unnecessarily costly for plan sponsors with no added protection for plan participants. In particular, the limited scope audit provides a balanced approach that give plans sponsors the ability to satisfy their audit requirements under ERISA while appropriately accommodating the characteristics of insurance contracts issued to ERISA plans. In adopting this limitation under section 103(a)(3)(C) of ERISA, Congress recognized that the rules governing insurance carriers and the manner in which they are examined are sufficient to protect the interests of policy holders which include employee benefit plans and their participants and beneficiaries. The Exposure Draft would require the plan auditor to, in essence, "look behind" the certified information provided by the insurance carrier. Had Congress intended this structure, it would have included it in ERISA. As such, the Exposure Draft appears inconsistent with Congressional intent.

As highly regulated companies, insurers undergo thorough risk-focused examinations by state insurance departments, usually every three years. Insurance carriers engage independent auditors to examine their books and records every year. We believe that the limited-scope audit continues to be an effective and efficient audit methodology for employee benefit plans. For insurance arrangements, the scope exception only applies to the plan's investment in an annuity or other insurance contract issued by an insurance carrier. The investments are reported at fair value on the statements prepared and certified by insurance carriers. In general, the current US GAAP accounting guidance requires that employee benefit plan assets be accounted for at fair value. We continue to believe that this is the most objective valuation measure and do not believe any additional regulatory guidance is needed.

While increasing the costs borne by both the plan sponsor and insurers, <u>full scope audits of these investments would yield no new information for the plan sponso</u>r. Thus, the cost of a <u>full-scope audit would add unnecessary costs with no added benefit for plan participants</u>. In a limited-scope audit, the auditor still assesses the fair value of all the assets within the benefit plan, just as he or she would in a full-scope audit. Auditors must perform procedures to adequately ascertain that any certification is proper and complies with regulations.

The AICPA offers no evidence that the use of limited scope audits by plans with assets held by insurance carriers has resulted in fiduciary breaches or created situations that have left participants vulnerable. Adding additional costs and layers of administration on plan sponsors without any additional benefit to the plan or its participants would discourage, not encourage employers to sponsor and maintain retirement plans. AICPA's work should be supportive of the work performed by independent auditors who examine the books and records of insurance carriers. AICPA should refocus its efforts on improving plan audit quality regardless of whether a plan sponsor utilizes a limited scope audit with respect to applicable portions of its plan.

ACLI also has concerns with how some of the changes will be used in practice. Unless deemed "clearly inconsequential," issues identified as a result of an audit could be considered for public disclosure in the "Reporting on Specific Plan Provisions Relating to the Financial Statements." Such a subjective standard should not be combined with public disclosures. There will likely be disagreements over what is or is not "clearly inconsequential." This will create uncertainty and has the potential to increase auditing costs by lengthening the audit process. Whether an issue is "clearly inconsequential" could vary by audit firm and/or audit firm office and may depend on the depth of the auditor's understanding of the ERISA and qualified plan rules and available corrections. The proposed change extends beyond the current required reporting by the Department of Labor (DOL), Internal Revenue Service (IRS) and Pension Benefit Guaranty Corporation (PBGC). Rather than public disclosure, the auditor should address the issues identified in the audit directly with the plan sponsor. Typically, plan sponsors would discuss these matters with ERISA counsel. When available, plan sponsors can correct a variety of issues through available correction programs.

As discussed above, there is no basis for the limited-scope audit changes proposed in the Exposure Draft. AICPA must revisit that aspect of the proposal. Should AICPA make changes to the auditing standards affecting ERISA plans, we request that any changes be effective for audits of financial statements for periods ending on or after December 31 of the second calendar year following the year the change is adopted. We believe a minimum 2-year period is required to provide plan sponsors, service providers, and plan auditors sufficient time to implement necessary policy, operational, and systems changes.

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The American Council of Life Insurers welcomes the Association's questions and dialogue on any part of our submission.

Sincerely,

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