PRUDENTIAL FINANCIAL INC
Form 10-Q
November 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.
(Exact Name of Registrant as Specified in its Charter)

New Jersey	22-3703799
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

751 Broad Street
Newark, New Jersey 07102
(973) 802-6000
(Address and Telephone Number of Registrant's Principal Executive Offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of the Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 31, 2016, 430 million shares of the registrant's Common Stock (par value $0.01) were outstanding.

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Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as "expects," "believes," "anticipates," "includes," "plans," "assumes," "estimates," "projects," "intends," "should," "will," "shall" or variati words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, utilization, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for our pension and other post-retirement benefit plans; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the U.S. Department of Labor's fiduciary rules; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters, and our exposure to contingent liabilities, including related to the remediation of certain securities lending activities administered by the Company; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) possible difficulties in executing, integrating and realizing projected results of acquisitions, divestitures and restructurings; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; and (26) Prudential Financial, Inc.'s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2015 for discussion of certain risks relating to our businesses and investment in our securities.

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Throughout this Quarterly Report on Form 10-Q, "Prudential Financial" and the "Registrant" refer to Prudential Financial, Inc., the ultimate holding company for all of our companies. "Prudential Insurance" refers to The Prudential Insurance Company of America. "Prudential," the "Company," "we" and "our" refer to our consolidated operations.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

September 30, 2016 and December 31, 2015 (in millions, except share amounts)

	September 30, 2016	December 31, 2015
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2016-$297,745; 2015-$265,416)(1)	$ 343,244	$ 290,323
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2016-$2,956; 2015-$2,624)(1)	2,471	2,308
Trading account assets supporting insurance liabilities, at fair value(1)	21,828	20,522
Other trading account assets, at fair value(1)	7,559	14,458
Equity securities, available-for-sale, at fair value (cost: 2016-$7,197; 2015-$6,847)	9,765	9,274
Commercial mortgage and other loans (includes $572 and $274 measured at fair value under the fair value option at September 30, 2016 and December 31, 2015, respectively)(1)	52,273	50,559
Policy loans	12,031	11,657
Other long-term investments (includes $1,500 and $1,322 measured at fair value under the fair value option at September 30, 2016 and December 31, 2015, respectively)(1)	11,346	9,986
Short-term investments	5,254	8,105
Total investments	465,771	417,192
Cash and cash equivalents(1)	24,728	17,612
Accrued investment income(1)	3,279	3,110
Deferred policy acquisition costs	16,975	16,718
Value of business acquired	2,159	2,828
Other assets(1)(2)	15,403	14,225
Separate account assets	291,550	285,570
TOTAL ASSETS	$ 819,865	$ 757,255
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 252,228	$ 224,384
Policyholders' account balances(1)	146,577	136,784
Policyholders' dividends	7,482	5,578
Securities sold under agreements to repurchase	6,830	7,882
Cash collateral for loaned securities	5,037	3,496
Income taxes	15,326	8,714
Short-term debt	907	1,216
Long-term debt(2)	18,758	19,594
Other liabilities(1)	15,474	13,517
Notes issued by consolidated variable interest entities (includes $2,722 and $8,597 measured at fair value under the fair value option at September 30, 2016 and December 31, 2015, respectively)(1)	2,722	8,597
Separate account liabilities	291,550	285,570
Total liabilities	762,891	715,332

COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 660,111,339 shares issued at both September 30, 2016 and December 31, 2015)	6	6
Additional paid-in capital	24,520	24,482
Common Stock held in treasury, at cost (228,406,976 and 213,009,970 shares at September 30, 2016 and December 31, 2015, respectively)	(14,989)	(13,814)
Accumulated other comprehensive income (loss)	24,925	12,285
Retained earnings	21,969	18,931
Total Prudential Financial, Inc. equity	56,431	41,890
Noncontrolling interests	543	33
Total equity	56,974	41,923
TOTAL LIABILITIES AND EQUITY	$ 819,865	$ 757,255

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(1) See Note 5 for details of balances associated with variable interest entities.

(2) Prior period amounts are presented on a basis consistent with the current period presentation, reflecting the adoption of ASU 2015-03. See Note 2 for additional information.

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2016 and 2015 (in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
REVENUES				
Premiums	$9,635	$5,985	$22,867	$20,214
Policy charges and fee income	1,540	1,624	4,415	4,482
Net investment income	4,073	3,741	11,532	11,181
Asset management and service fees	955	946	2,780	2,854
Other income	(55)	(397)	8	(58)
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(29)	(81)	(204)	(149)
Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income	0	8	38	39
Other realized investment gains (losses), net	842	1,773	4,293	4,300
Total realized investment gains (losses), net	813	1,700	4,127	4,190
Total revenues	16,961	13,599	45,729	42,863
BENEFITS AND EXPENSES				
Policyholders' benefits	10,155	6,648	25,175	21,739
Interest credited to policyholders' account balances	824	840	3,168	2,749
Dividends to policyholders	569	367	1,433	1,585
Amortization of deferred policy acquisition costs	115	922	1,744	1,846
General and administrative expenses	2,983	2,773	8,821	8,018
Total benefits and expenses	14,646	11,550	40,341	35,937
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	2,315	2,049	5,388	6,926
Total income tax expense (benefit)	501	584	1,300	1,962
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,814	1,465	4,088	4,964
Equity in earnings of operating joint ventures, net of taxes	18	2	38	8
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,832	1,467	4,126	4,972
Income (loss) from discontinued operations, net of taxes	0	0	0	0
NET INCOME (LOSS)	1,832	1,467	4,126	4,972
Less: Income (loss) attributable to noncontrolling interests	5	2	42	65
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$1,827	$1,465	$4,084	$4,907
EARNINGS PER SHARE				
Basic earnings per share-Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$4.14	$3.22	$9.16	$10.74
Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.00	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$4.14	$3.22	$9.16	$10.74
Diluted earnings per share-Common Stock:				
	$4.07	$3.16	$9.02	$10.56

Income (loss) from continuing operations attributable to Prudential Financial, Inc.				
Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.00	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$4.07	$3.16	$9.02	$10.56
Dividends declared per share of Common Stock	$0.70	$0.58	$2.10	$1.74

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Comprehensive Income
Three and Nine Months Ended September 30, 2016 and 2015 (in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
NET INCOME (LOSS)	$1,832	$1,467	$4,126	$4,972
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments for the period	697	(96)	1,980	(259)
Net unrealized investment gains (losses)	(678)	169	16,642	(4,043)
Defined benefit pension and postretirement unrecognized periodic benefit (cost)	44	47	117	153
Total	63	120	18,739	(4,149)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(240)	68	6,051	(1,501)
Other comprehensive income (loss), net of taxes	303	52	12,688	(2,648)
Comprehensive income (loss)	2,135	1,519	16,814	2,324
Less: Comprehensive income (loss) attributable to noncontrolling interests	50	(5)	90	4
Comprehensive income (loss) attributable to Prudential Financial, Inc.	$2,085	$1,524	$16,724	$2,320

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Equity
Nine Months Ended September 30, 2016 and 2015 (in millions)

	Prudential Financial, Inc. Equity								
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Class B Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2015	$6	$24,482	$18,931	$(13,814)	$0	$12,285	$41,890	$33	$41,923
Cumulative effect of adoption of accounting changes			11				11	(30)	(19)
Common Stock acquired				(1,375)			(1,375)		(1,375)
Class B Stock repurchase adjustment			(119)				(119)		(119)
Contributions from noncontrolling interests								9	9
Distributions to noncontrolling interests								(30)	(30)
Consolidations/(deconsolidations) of noncontrolling interests								471	471
Stock-based compensation programs		38		200			238		238
Dividends declared on Common Stock			(938)				(938)		(938)
Comprehensive income:									
Net income (loss)			4,084				4,084	42	4,126
Other comprehensive income (loss), net of tax						12,640	12,640	48	12,688
Total comprehensive income (loss)							16,724	90	16,814
Balance, September 30, 2016	$6	$24,520	$21,969	$(14,989)	$0	$24,925	$56,431	$543	$56,974

	Prudential Financial, Inc. Equity								
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Class B Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2014	$6	$24,565	$14,888	$(13,088)	$(651)	$16,050	$41,770	$579	$42,349
Common Stock acquired				(750)			(750)		(750)
Class B Stock canceled		(167)	(484)		651		0		0
Contributions from noncontrolling interests								28	28
Distributions to noncontrolling interests								(416)	(416)
Consolidations (deconsolidations) of noncontrolling interests								(145)	(145)

Stock-based compensation programs		(50)		226			176		176
Dividends declared on Common Stock			(796)				(796)		(796)
Comprehensive income:									
Net income (loss)			4,907				4,907	65	4,972
Other comprehensive income (loss), net of tax						(2,587)	(2,587)	(61)	(2,648)
Total comprehensive income (loss)							2,320	4	2,324
Balance, September 30, 2015	$6	$24,348	$18,515	$(13,612)	$0	$13,463	$42,720	$50	$42,770

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2016 and 2015 (in millions)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$4,126	$4,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(4,127)	(4,190)
Policy charges and fee income	(1,417)	(1,382)
Interest credited to policyholders’ account balances	3,168	2,749
Depreciation and amortization	402	126
(Gains) losses on trading account assets supporting insurance liabilities, net	(361)	365
Change in:		
Deferred policy acquisition costs	(391)	(115)
Future policy benefits and other insurance liabilities	7,668	4,655
Other trading account assets	(54)	118
Income taxes	797	1,295
Derivatives, net	7,443	3,048
Other, net	(216)	189
Cash flows from (used in) operating activities	17,038	11,830
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	36,420	35,030
Fixed maturities, held-to-maturity	205	179
Trading account assets supporting insurance liabilities and other trading account assets	24,720	10,620
Equity securities, available-for-sale	2,798	3,707
Commercial mortgage and other loans	4,522	3,904
Policy loans	1,727	1,641
Other long-term investments	457	989
Short-term investments	35,728	57,142
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(49,467)	(33,792)
Trading account assets supporting insurance liabilities and other trading account assets	(26,049)	(13,891)
Equity securities, available-for-sale	(2,413)	(3,115)
Commercial mortgage and other loans	(6,011)	(7,479)
Policy loans	(1,402)	(1,320)
Other long-term investments	(1,537)	(1,620)
Short-term investments	(33,196)	(56,803)
Acquisition of business, net of cash acquired	(532)	0
Derivatives, net	718	(411)
Other, net	228	56
Cash flows from (used in) investing activities	(13,084)	(5,163)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders’ account deposits	22,207	17,743
Policyholders’ account withdrawals	(17,514)	(16,322)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	488	(1,300)
Cash dividends paid on Common Stock	(939)	(801)
Net change in financing arrangements (maturities 90 days or less)	516	234

Common Stock acquired	(1,339)	(744)
Class B stock acquired	(119)	(651)
Common Stock reissued for exercise of stock options	112	158
Proceeds from the issuance of debt (maturities longer than 90 days)	1,449	4,577
Repayments of debt (maturities longer than 90 days)	(1,452)	(3,922)
Excess tax benefits from share-based payment arrangements	4	18
Other, net	(611)	(424)
Cash flows from (used in) financing activities	2,802	(1,434)
Effect of foreign exchange rate changes on cash balances	360	56
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,116	5,289
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,612	14,918
CASH AND CASH EQUIVALENTS, END OF PERIOD	$24,728	$20,207
NON-CASH TRANSACTIONS DURING THE PERIOD(1)		
Treasury Stock shares issued for stock-based compensation programs	$113	$111
Significant Pension Risk Transfer transactions:		
Assets acquired, excluding cash and cash equivalents acquired	$2,388	$1,553
Liabilities assumed	3,215	1,919
Net cash received	$827	$366

1) See Note 2 for the impact of the adoption of “ASU 2015-02, Consolidation” on the Consolidated Financial Statements.

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (“Prudential Financial”) and its subsidiaries (collectively, “Prudential” or the “Company” or “PFI”) provide a wide range of insurance, investment management, and other financial products and services to both individual and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, retirement-related services, mutual funds and investment management.

From December 18, 2001, the date of demutualization, through December 31, 2014, the Company organized its principal operations into the Financial Services Businesses and the Closed Block Business, and had two classes of common stock outstanding. The Common Stock, which is publicly traded (NYSE:PRU), reflected the performance of the Financial Services Businesses, while the Class B Stock, which was issued through a private placement and did not trade on any exchange, reflected the performance of the Closed Block Business.

On January 2, 2015, Prudential Financial repurchased and canceled all of the shares of the Class B Stock (the “Class B Repurchase”). As a result, the Company no longer organizes its principal operations into the Financial Services Businesses and the Closed Block Business. The Company’s principal operations are comprised of four divisions: the U.S. Retirement Solutions and Investment Management division, the U.S. Individual Life and Group Insurance division, the International Insurance division and the Closed Block division. The Closed Block division is accounted for as a divested business that is reported separately from the divested businesses that are included in the Company’s Corporate and Other operations. The Company’s Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested, excluding the Closed Block division.

Basis of Presentation

As a result of the Class B Repurchase and resulting elimination of the separation of the Financial Services Businesses and the Closed Block Business, these Unaudited Interim Consolidated Financial Statements refer to the divisions and segments of the Company that formerly comprised the Financial Services Businesses as “PFI excluding Closed Block division” and refer to the operations that were formerly included in the Closed Block Business as the “Closed Block division,” except as otherwise noted. Closed Block Business results were associated with the Company’s Class B Stock for periods prior to January 1, 2015.

The Unaudited Interim Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and variable interest entities (“VIEs”) in which the Company is considered the primary beneficiary. See Note 5 for more information on the Company’s consolidated variable interest entities. The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Intercompany balances and transactions have been eliminated.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company’s Consolidated Financial Statements included in the Company’s Annual Report on Form

10-K for the year ended December 31, 2015.

The Company's Gibraltar Life Insurance Company, Ltd. ("Gibraltar Life") consolidated operations use a November 30 fiscal year end for purposes of inclusion in the Company's Consolidated Financial Statements. The Company's unaudited interim consolidated balance sheet data as of September 30, 2016, include the assets and liabilities of Gibraltar Life as of August 31, 2016. The Company's unaudited interim consolidated income statement data include Gibraltar Life's results of operations for the three and nine months ended August 31, 2016 and 2015, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining deferred policy acquisition costs ("DAC") and related amortization; value of business acquired ("VOBA") and its amortization; amortization of deferred sales inducements ("DSI"); measurement of goodwill and any related impairment; valuation of investments including derivatives and the recognition of other-than-temporary impairments ("OTTI"); future policy benefits including guarantees; pension and other postretirement benefits; provision for income taxes and valuation of deferred tax assets; and accruals for contingent liabilities, including estimates for losses in connection with unresolved legal matters.

Out of Period Adjustments

During the second quarter of 2016, the Company recorded an out of period adjustment resulting in a decrease of $148 million to "Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures," which is reflected in the three month period ended June 30, 2016 and the nine month period ended September 30, 2016. The adjustment reflects a charge to increase reserves, net of a related increase in DAC, for certain universal life products within the Individual Life business. Management evaluated the adjustment and concluded it was not material to the current period or to any previously reported quarterly or annual financial statements. For additional information on the impact of this adjustment to the Company's operating segments, see Note 11.

Reclassifications

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

This section supplements, and should be read in conjunction with, Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Adoption of New Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued guidance (Accounting Standards Update ("ASU") 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)) to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2015, and was applied retrospectively. Adoption of the guidance did not have a significant effect on the Company's financial statement disclosures, see Note 13.

In April 2015, the FASB issued updated guidance (ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs) that simplifies the presentation of debt issuance costs. The pronouncement requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The Company adopted the guidance effective January 1, 2016. Prior period financial information presented in these financial statements has been adjusted to reflect the retrospective adoption of the amended guidance. "Other assets" and "Long-term debt" as previously reported on the Company's consolidated statements of financial position as of December 31, 2015 were both reduced by $133 million as a result of this retrospective adoption.

In February 2015, the FASB issued updated guidance (ASU 2015-02, Consolidation (Topic 810): Amendments to Consolidation Analysis) that modifies the rules regarding consolidation. The pronouncement eliminates specialized guidance for limited partnerships and similar legal entities, and removes the indefinite deferral for certain investment funds. The new guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company adopted the updated guidance effective January 1, 2016 and applied the modified retrospective method of adoption, primarily resulting in the deconsolidation of certain of its previously consolidated collateralized loan obligations (“CLOs”), as its fee arrangements are no longer deemed variable interests in these entities. The Company continues to consolidate CLOs where it retains other economic interests which absorb more than an insignificant amount of the CLOs expected variability. The Company also deconsolidated certain investment structures where it is no longer deemed to be the primary beneficiary as the Company, through its equity ownership, no longer has the obligation to absorb losses of the VIE that could be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The impact to the Company’s consolidated statements of financial position upon adoption of the updated guidance was a reduction of $5.5 billion of “Total assets” (including $5.1 billion of “Total investments”) and $5.5 billion of “Total liabilities” (including $5.1 billion of “Notes issued by consolidated variable interest entities”), with a $30 million decrease in “Noncontrolling interests” and a $7 million increase to “Total Prudential Financial, Inc. equity.”

In August 2014, the FASB issued updated guidance (ASU 2014-14, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure) requiring that mortgage loans be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2014, and was applied prospectively. Adoption of the guidance did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures.

In August 2014, the FASB issued updated guidance (ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity) for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity. Under the guidance, an entity within scope is permitted to measure both the financial assets and financial liabilities of a consolidated collateralized financing entity based on either the fair value of the financial assets or the financial liabilities, whichever is more observable. If adopted, the guidance eliminates the measurement difference that exists when both are measured at fair value. The Company adopted the updated guidance effective January 1, 2016, and applied the modified retrospective method of adoption. The impact to the Company's consolidated statements of financial position upon adoption of the updated guidance was a $4 million reduction in "Total liabilities" and a $4 million increase to "Total Prudential Financial, Inc. equity."

In June 2014, the FASB issued updated guidance (ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures) that requires repurchase-to-maturity transactions to be accounted for as secured borrowings and eliminates existing guidance for repurchase financings. The guidance also requires new disclosures for certain transactions accounted for as secured borrowings and for transfers accounted for as sales when the transferor also retains substantially all of the exposure to the economic return on the transferred financial assets. Accounting changes and new disclosures for transfers accounted for as sales under the new guidance were effective for the first interim or annual period beginning after December 15, 2014, and did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures. Disclosures for certain transactions accounted for as secured borrowings were effective for interim periods beginning after March 15, 2015, and are included in Note 4. The Company applied the modified retrospective method of adoption.

In April 2014, the FASB issued updated guidance (ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity) that changes the criteria for reporting discontinued operations and introduces new disclosures. The new guidance became effective for new disposals and new classifications of disposal groups as held for sale that occur within annual periods that began on or after December 15, 2014, and interim periods within those annual periods, and was applied prospectively. Adoption of the guidance did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures.

In January 2014, the FASB issued updated guidance (ASU 2014-04, Receivables—Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure) for troubled debt restructurings clarifying when an in-substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2014, and was applied prospectively. Adoption of the guidance did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures.

In January 2014, the FASB issued updated guidance (ASU 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects) regarding investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. Under the guidance, an entity is permitted to make an accounting policy election to amortize the initial cost of its investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the statement of operations as a component of income tax expense (benefit) if certain conditions are met. The new guidance became effective for annual periods and interim reporting periods within those annual periods that began after December 15, 2014. The Company did not elect the proportional amortization method under this guidance.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Future Adoption of New Accounting Pronouncements

In May 2014, the FASB issued updated guidance (ASU 2014-09, Revenue from Contracts with Customers (Topic 606)) on accounting for revenue recognition. The guidance is based on the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from cost incurred to obtain or fulfill a contract. Revenue recognition for insurance contracts and financial instruments is explicitly scoped out of the guidance. In August 2015, the FASB issued an update to defer the original effective date of this guidance. As a result of the deferral, the new guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017, and must be applied using one of two retrospective application methods. Early adoption is permitted only for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently assessing the impact of the guidance on the Company’s consolidated financial position, results of operations and financial statement disclosures.

In May 2015, the FASB issued final guidance (ASU 2015-09, Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts) that aims to enhance disclosures about insurance contracts classified as short-duration. The new disclosure requirements focus on providing users of financial statements with more transparent information about an insurance entity’s initial claim estimates and subsequent adjustments to those estimates, methodologies and judgments in estimating claims, and timing, frequency and severity of claims as they relate to short-duration insurance contracts. The new guidance is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016, and is to be applied retrospectively. The Company is currently assessing the impact of the guidance on the Company’s financial statement disclosures but has concluded that this guidance will not impact the Company’s consolidated financial position or results of operations.

In January 2016, the FASB issued updated guidance (ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities) on the recognition and measurement of financial assets and financial liabilities. The guidance revises an entity’s accounting related to the classification and measurement of certain equity investments and the presentation of certain fair value changes for financial liabilities measured at fair value. The guidance also amends certain disclosure requirements associated with the fair value of financial instruments. The new guidance is effective for annual periods and interim reporting periods within those annual periods beginning after December 15, 2017. Early adoption is not permitted except for the provisions related to the presentation of certain fair value changes for financial liabilities measured at fair value. The Company is currently assessing the impact of the guidance on the Company’s consolidated financial position, results of operations and financial statement disclosures.

In February 2016, the FASB issued guidance (ASU 2016-02, Leases (Topic 842)) that ensures assets and liabilities from all outstanding lease contracts are recognized on balance sheet (with limited exception). The guidance substantially changes a Lessee’s accounting for leases and requires the recording on balance sheet of a “right-of-use” asset and liability to make lease payments for most leases. A Lessee will continue to recognize expense in its income statement in a manner similar to the requirements under the current lease accounting guidance. For Lessors, the guidance modifies classification criteria and accounting for sales-type and direct financing leases and requires a Lessor to derecognize the carrying value of the leased asset that is considered to have been transferred to a Lessee and record a lease receivable and residual asset (“receivable and residual” approach). The guidance also eliminates the real estate specific provisions of the current guidance (i.e., sale-leaseback). The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2018, and for interim periods within those annual periods, with early adoption permitted. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In March 2016, the FASB issued guidance (ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting) to simplify the transition to equity method when an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2016, and for interim periods within those annual periods. The guidance is to be applied prospectively to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method after the effective date. The Company does not expect the adoption of this guidance to have a significant impact on the Company's consolidated financial position, results of operations and financial statement disclosures.

In March 2016, the FASB issued guidance (ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payments Accounting) to simplify and improve employee share-based payment accounting. The areas updated include income tax consequences, a policy election related to forfeitures, classification of awards as either equity or liability, and classification of operating and financing activity on the statement of cash flows. The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2016, and for interim periods within those annual periods, with early adoption permitted. The Company does not expect the adoption of this guidance to have a significant impact on the Company's consolidated financial position, results of operations and financial statement disclosures.

In June 2016, the FASB issued guidance (ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments) that provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., loans held for investment, debt securities held to maturity, reinsurance receivables, net investments in leases and loan commitments). The model requires an entity to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The guidance also modifies the current other-than-temporary impairment guidance for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces existing guidance for purchased credit deteriorated loans and debt securities. The new guidance is effective for financial statements issued by public entities for annual reporting periods beginning after December 15, 2019, and for interim periods within those annual periods. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In August 2016, the FASB issued guidance (ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)) to address diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide clarity on the treatment of eight specifically defined types of cash inflows and outflows. The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2017, and for interim periods within those annual periods, with early adoption permitted, provided that all of the amendments are adopted in the same period. The Company is currently assessing the impact of the guidance on the Company's statement of cash flows.

3. ACQUISITIONS

This section supplements, and should be read in conjunction with, the complete descriptions provided in Note 3 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2015.

Acquisition of Deutsche Bank's India Asset Management Business

In March 2016, the Company and its asset management joint venture partner in India completed the previously announced acquisition of Deutsche Bank's India asset management business through the joint venture. This acquisition, which will expand the Company's investment management expertise, distribution platform and product portfolio in India, did not have a material impact on the Company's financial results.

Acquisition of Administradora de Fondos de Pensiones Habitat S.A.

In March 2016, the Company completed the purchase of an indirect 40% ownership interest in Administradora de Fondos de Pensiones Habitat S.A. (“AFP Habitat”), a leading provider of retirement services in Chile, from Inversiones La Construcción S.A. (“ILC”), the investment subsidiary of the Chilean Construction Chamber. The Company paid 899.90 Chilean pesos per share, for a total purchase price of approximately $532 million based on exchange rates at the share acquisition date. The Company and ILC now equally own an indirect controlling stake in AFP Habitat through a joint holding company. The Company’s investment will be accounted for under the equity method and is recorded within “Other assets.” This acquisition will enable the Company to participate in the growing Chilean pension market.

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4. INVESTMENTS

Fixed Maturities and Equity Securities

The following tables provide information relating to fixed maturities and equity securities (excluding investments classified as trading) as of the dates indicated:

	September 30, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI(4)
	(in millions)				
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$20,359	$ 5,403	$ 37	$25,725	$ 0
Obligations of U.S. states and their political subdivisions	8,489	1,382	4	9,867	0
Foreign government bonds	86,008	22,522	130	108,400	0
U.S. corporate public securities	78,592	9,513	489	87,616	(9)
U.S. corporate private securities(1)	29,905	2,789	226	32,468	(20)
Foreign corporate public securities	27,185	3,619	155	30,649	(6)
Foreign corporate private securities	20,645	966	616	20,995	0
Asset-backed securities(2)	10,318	178	121	10,375	(316)
Commercial mortgage-backed securities	11,912	604	15	12,501	(1)
Residential mortgage-backed securities(3)	4,332	319	3	4,648	(3)
Total fixed maturities, available-for-sale(1)	$297,745	$ 47,295	$ 1,796	$343,244	$ (355)
Equity securities, available-for-sale	$7,197	$ 2,611	$ 43	$9,765	

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held-to-maturity				
Foreign government bonds	$965	$ 341	$ 0	$1,306
Foreign corporate public securities	717	83	0	800
Foreign corporate private securities(5)	93	4	0	97
Commercial mortgage-backed securities				