



Sent via email to director@fasb.org

March 27, 2009

Technical Director – File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b Financial Accounting Standards Board 401 Merritt 7
PO Box 5116
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RE: File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b

Genworth Financial appreciates the opportunity to comment on the proposed FASB Staff Position (FSP) FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments.

Genworth Financial is a leading financial security company dedicated to providing insurance, wealth management, investment and financial solutions to more than 15 million customers. As a financial security company, we invest in debt and equity securities that are classified as available-for-sale in accordance with FASB Statement No. 115 ("FAS 115") and, accordingly, are subject to other-than-temporary impairment.

The current market environment for securities has resulted in overall declines in fair value below cost for the majority of our investment portfolios that have necessitated the requirement to evaluate the unrealized loss on these securities and determine whether the unrealized loss meets the criteria of an other-than-temporary-impairment (OTTI). The declines in fair value of securities can generally be attributed to 1) decreases in liquidity, 2) increases in risk/uncertainty in the market, and 3) deterioration in the underlying performance or expected future performance. The current guidance for determining the amount of OTTI included in earnings would include all components that led to the decline in fair value as opposed to the credit component, or expected loss. As a result, entities have recognized OTTI impairments in earnings in excess of the actual expected losses on the securities because of the increasing risk/uncertainty and illiquidity in the market even if they do not have any intention of selling the respective securities.

We agree with the Board's decision to revise the OTTI guidance for both the presentation of OTTI within earnings as well as the consideration of an entity's ability and intent for determining when an OTTI exists. The proposed FSP provides the necessary revisions to meet the Board's stated objectives of improving the operational aspects of the OTTI guidance and improving the presentation of OTTI in financial statements.

In response to the questions of the proposed FSP, we offer the following comments:

- Question 1. The proposed presentation of OTTI as described in the FSP provides meaningful and decision-useful information for investors and provides a more accurate representation of an entity's expected losses from those securities, whether the loss is expected as a result of the decision to sell or as a result of deterioration in the underlying security's performance and the security is not expected to be sold. The proposed presentation of OTTI would also result in an improvement in the comparison of losses recorded in earnings for loans because the losses for loans included in structured securities would be more comparable to losses for whole loans.
- Question 2. The guidance for determining the credit loss component of an OTTI is clear and operational. Notwithstanding, we have suggested enhancements to the guidance provided in the proposed FSP to promote consistent operational implementation and application. We offer the following comments as suggested enhancements to the provisions for determining the credit loss component of OTTI.

In relation to applying the guidance for determining the credit loss component of an OTTI for corporate debt and equity securities, we believe there will be operational challenges to determining the amount associated with credit losses. Entities do not explicitly project cash flows for these securities when determining whether an OTTI exists. The projection of the most likely cash flows implicitly requires a company to determine whether a situation would occur that would result in receiving less than the expected cash flows. Absent the likelihood of a short-fall, the projection of cash flows would likely not result in a credit loss being recorded through earnings if the entity does not intend to sell, or will likely not be required to sell, the security. We request that the Board add language to clarify these matters and ensure consistent application.

We agree with the proposed presentation of the non-credit related losses for OTTI securities being included within other comprehensive income. As stated above, this change in presentation from the current OTTI guidance provides more meaningful information to financial statement users when evaluating the entity's financial performance while still providing information on current fair value. The criteria outlined in the FSP that would result in the amount of non-credit losses (recorded in other comprehensive income) being recorded in earnings are appropriate, as those criteria are generally consistent with the OTTI guidance for securities that have not previously been written down through earnings.

Question 3. The new guidance related to an entity's intent is helpful in alleviating the requirement to positively support an assumption that one has the ability and intent to hold to recovery— which is very subjective and difficult to predict— and replace it with the negative assertion that is more objective and includes a representation that one does not have the intent to sell nor is it likely that one will be required to sell the security prior to recovery. This change represents an improvement in the operational aspects for determining whether OTTI exists in relation to this factor and will result in more emphasis on the assessment of OTTI based on the underlying analysis of a security.

It is not clear how the proposed guidance and existing guidance interact with the factors such as severity and duration in determining OTTI, except as part of the analysis of cash flows. For example, if an entity has a security where there is no intent to sell (nor is it more likely than not that the security will be required to be sold) and such security was required to be evaluated under EITF 99-20, the proposed guidance would seem to require an evaluation of the credit loss for the security when the results of the EITF 99-20 analysis indicates an OTTI exists. The determination of the amount of credit loss would be calculated based on the best estimate of cash flows discounted at the current yield of the security. Once the determination of the credit loss is completed, separate consideration of other factors such as severity and duration would not be relevant. Alternatively, in the situation where there is an intent to sell a security and an unrealized loss exists, all of the loss would be recognized in earnings and, again, other factors such as severity and duration are not relevant. We urge the Board to revise the proposed guidance to clarify that the interaction of these other factors, including severity and duration, are not intended to be considered in addition to the determination of the most likely cash flows of the security when an entity does not intend to sell the security and it is not likely it will be required to sell the security.

The proposed modification for consideration of an entity's intent when determining OTTI should apply to both debt and equity securities and would result in OTTI being based on a more fundamental analysis of the respective security. This modification is likely to result in entities re-assessing existing policies around when an equity security is considered impaired and could have a significant impact in practice if entities do not expect to sell the security in the foreseeable future and there are no concerns about the financial condition of the issuer. We urge the Board to clarify the intention and expected application of the proposed revisions for equity securities with regard to an entity's intent and whether the Board believes the proposed revisions would have a significant impact in practice.

Question 5. As stated above, we agree with the Board's proposed effective date and believe the proposed guidance is operational. While there will be significant timing challenges to implementing the guidance as the final guidance will be issued after the reporting period end date, we urge the Board to finalize the FSP on, or shortly after, April 2, 2009 to allow entities to implement the new guidance with minimal disruption to the quarterly reporting process.

In addition to the responses to the questions in the proposed FSP, we also would urge the Board to consider ensuring consistent use of the term 'required' in the context of whether it is likely that an entity will sell a security. For example, the proposed amendment to paragraph 14 of FSP FAS 115-1 and FAS 124-1 states the following, "... or it is more likely than not that the investor will be required to sell the security before recovery of its cost basis. [emphasis added]" In comparison, the proposed amendment to paragraph 15 does not include the phrase 'be required to' as a condition to applying the proposed OTTI guidance. We believe the distinction between whether it is likely that an entity will sell a security or that an entity will be required to sell a security is significant. We believe the intention of the proposed guidance was to require that investors consider, not only their intention to sell the security, but also consider whether facts and circumstances would likely necessitate the sale of a security prior to recovery, for reasons not limited to potential liquidity needs

or regulatory environment changes. We believe it would be helpful for the Board to clarify their intention regarding this modification and consider adding examples of situations that are consistent with the intent.

Additionally, we note the proposed amendment to paragraph A3 for FSP FAS 115-1 and FAS 124-1 appears to have omitted the word 'sell' and should be amended to state, in part, "... the Company will not be required to <u>sell</u> the investments, [<u>added</u>]."

We appreciate the opportunity to comment on the proposed FSP. If there are any questions regarding the content of this letter or you wish to discuss our comments and recommendations, please contact Brad Anderson at (804) 662-7726 or me at (804) 662-2685.

Sincerely,

/s/ Amy R. Corbin

Amy R. Corbin
Vice President and Controller