

August 15, 2008



Mr. Russell Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

LETTER OF COMMENT NO. 67

Re: File Reference No. 1590-100 – Proposed Statement of Financial Accounting Standards – Accounting for Hedging Activities an amendment of FASB Statement No. 133

Dear Mr. Golden:

Manulife Financial is pleased to comment on the Exposure Draft of the *Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities an amendment of FASB Statement No. 133*. Manulife Financial operates in the United States through its wholly owned subsidiary, John Hancock Financial Services, specializing in life insurance and asset management.

We prepare our primary financial statements in accordance with Canadian generally accepted accounting principles ("CGAAP"), and reconcile this CGAAP presentation to accounting principles generally accepted in the United States ("USGAAP") in a note to our financial statements. The Canadian Institute of Chartered Accountants is on track to adopt International Financial Reporting Standards (IFRS) for CGAAP in 2011. Our subsidiaries in the United States prepare financial statements in accordance with USGAAP and are likely to continue to do so for many years. Hence, we currently follow both CGAAP and USGAAP and will follow both IFRS and USGAAP in the near future.

As with most life insurance companies, we employ a wide-ranging hedging program that supports our overall risk management objectives. We support the Board's objectives to simplify accounting for hedging activities, improve the financial reporting of hedging activities, and resolve the practice issues that currently exist under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. However, we do not support the issuance of the proposed Exposure Draft in its current form.

We believe that the following aspects of the Exposure Draft should be reconsidered before the guidance is finalized:

- We do not agree with the elimination of the bifurcation-by-risk approach in the Exposure Draft. Our company predominantly hedges specific risks on a financial instrument or portfolio basis in accordance with our risk management strategies. The elimination of the bifurcation-by-risk approach would result in increased income statement volatility and reduce the transparency of our risk management strategies to the users of financial statements. In addition, we may incur additional costs to elect hedge accounting which is not in alignment with our risk management objective.
- We request that the Board clarify the "reasonably effective" criteria for determining if a hedge is effective. Lack of clear guidance on the meaning of the term will cause diversity in practice and affect the comparability of financial statements.

- We request clarity on circumstances when quantitative analyses for assessing the effectiveness of a hedging relationship would be necessary.
- With the increased emphasis on convergence with international standards, we believe this standard should converge with IFRS. FASB should work with the IASB to develop harmonized guidance in order to increase comparability for the users of financial statements and avoid the inefficiencies associated with making changes to systems and processes only to have to change them again when required to implement IFRS in the near future.

Our responses to the Board's questions are attached in the Appendix.

Respectfully,



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Appendix

Issue 1: For the reasons stated in paragraph A16 of this proposed Statement, the Board decided to eliminate (with two exceptions) the ability of an entity to designate individual risks as the hedged risk in a fair value or cash flow hedge. As a result of that change, the financial statements would reflect information about the risks in the hedged item or transaction that an entity both chooses to manage and not to manage as part of a particular hedging relationship.

Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the ability of an entity to designate individual risks and requiring the reporting of the risks inherent in the hedged item or transaction?

Response: We believe this approach will not improve the overall usefulness of financial statements because it impairs the transparency of our risk management strategies to the users of the financial statements.

The elimination of bifurcation-by-risk approach would fundamentally change the existing guidance under FAS 133. In order to comply with the proposed requirement, we will need to hedge against all sources of volatility in a hedged item's fair value or cash flows. Coupled with the fact that typically interest rate and cross-currency swaps and other derivatives are not normally designed to hedge individual issuer risks, the Exposure Draft would require entities to enter into multiple derivative instruments to hedge all risks in order to apply hedge accounting under the proposed guidance. This is not in line with our risk management objectives.

In addition, the Exposure Draft will also require that we determine fair value of non-marketable securities (hedged items) where we would not normally elect to carry at fair value on the financial statements. This will add to the overall cost of electing hedge accounting, introduce operational complexities and create inflexibility for our company to implement our risk management strategies. We manage our risks on financial instruments through a combination of derivatives and other methods (i.e. credit risk is managed through a rigorous credit adjudication and monitoring process). The proposed guidance effectively requires our company to assume that the derivative will hedge all risks of the hedged item while ignoring other risk management practices that are in place to manage certain risks with respect to the hedged item. This may result in misleading information for readers of the financial statements with respect to the risk management strategies employed by our company.

In the case of fair value hedges, all changes in the fair value of an Available for Sale security would be recorded into income instead of Other Comprehensive Income. This would result in an Available for Sale portfolio being partially treated as Held for Trading and partially as Available for Sale. The different accounting treatments being applied for securities classified as Available for Sale would further confuse the readers of the financial statements.

Therefore, we believe the Exposure Draft as currently drafted would not improve the transparency and overall usefulness of reported financial information to investors and capital markets.

Issue 2: For the reasons stated in paragraphs A18–A20, the Board decided to continue to permit an entity the ability to designate the following individual risks as the hedged risk in a fair value or cash flow hedge: (a) interest rate risk related to its own issued debt (that is, its liability for funds borrowed), if hedged at inception, and (b) foreign currency exchange risk. For those two exceptions, the financial statements would not reflect information about the risks that an entity chooses not to manage as part of a particular hedging relationship.

Do you believe the Board should continue to permit an entity to designate those individual risks as a hedged risk?

Response: We believe that it is important to retain the bifurcation-by-risk approach and support the Board's decision to permit an entity to designate individual risks as a hedged risk. This should be extended to all hedged items as per our response to Issue 1.

Issue 3: This proposed Statement would eliminate the shortcut method and critical terms matching. Therefore, an entity would no longer have the ability upon compliance with strict criteria to assume a hedging relationship is highly effective and recognize no ineffectiveness in earnings during the term of the hedge. As a result, when accounting for the hedging relationship, an entity would be required, in all cases, to independently determine the changes in fair value of the hedged item for fair value hedges and the present value of the cumulative change in expected future cash flows on the hedged transaction.

Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for fair value hedging relationships and cash flow hedging relationships?

Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the shortcut method and critical terms matching, which would eliminate the ability of an entity to assume a hedging relationship is highly effective and to recognize no ineffectiveness in earnings?

Response: We support the Board's objectives in reducing the complexity of the current standard and alleviating the operational challenges associated with complying with these methods. However, in instances where all key terms of the hedging instrument and hedged item match, we expect the relationship to meet the reasonably effective criteria for the particular risk being hedged. Again, requiring the full change in fair value of the hedged item to go through earnings will result in greater volatility and reflect through earnings the impact of changes in fair value that are not being hedged, particularly credit risk. We prefer the current practice of allowing short cut and critical terms match where the terms of the hedging instrument are exactly matched to the hedged risk.

Issue 4: This proposed Statement would modify the effectiveness threshold necessary for applying hedge accounting from *highly effective* to *reasonably effective* at offsetting changes in fair value or variability in cash flows.

Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?

For situations in which interest rate risk is currently designated as the hedged risk for financial instruments but would no longer be permitted under this proposed Statement (except for an entity's own issued debt at inception), do you believe you would continue to qualify for hedge accounting utilizing your current hedging strategy? If not, would you (a) modify your hedging strategy to incorporate other derivative instruments, (b) stop applying hedge accounting, (c) elect the fair value option for those financial instruments, or (d) adopt some other strategy for managing risk?

Response: We believe that the Board should provide additional clarification around the term "reasonably effective". For example, can a dollar offset ratio within the range of 60%-167% be considered reasonably effective? Reasonably effective offers a wide range of interpretations, so it would be beneficial for the Board to provide additional guidance to reduce diversity in practice.

We believe that the majority of our existing hedge strategies would still qualify for hedge accounting under the new “reasonably effective” criteria because our current hedges meet the ‘highly effective’ criteria (80% to 125%) required under the current standard. However, we expect to experience increased income volatility and additional hedge documentation due to the inclusion of risks that are not being hedged by the derivative, particularly changes in the credit spread of the bond or other debt instrument issuers.

We would also like additional clarification around the circumstances in which quantitative hedge assessments would be required as the Exposure Draft does not address this. Given the wide range of interpretations for what circumstances would constitute when a quantitative assessment would be required, it would be beneficial to set forth some specific examples of what could be considered reasonably effective.

Issue 5: This proposed Statement always would require an effectiveness evaluation at inception of the hedging relationship. After inception of the hedging relationship, an effectiveness evaluation would be required if circumstances suggest that the hedging relationship may no longer be reasonably effective.

Do you foresee any significant operational concern in creating processes that will determine when circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness each reporting period?

Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? If so, why?

Response: We support the Board’s proposal to evaluate the qualitative effectiveness at inception. We do not foresee operational issues in creating processes for evaluating when hedging relationships may become ineffective since our company currently monitors and evaluates all hedges that are not perfect matches under the existing guidance. The proposal will also reduce the number of times the hedging relationship is discontinued as it eliminates the need to consider short-term market movements in the assessment of hedge effectiveness.

Issue 6: The Board considered but decided against eliminating any assessment of effectiveness after the inception of the hedging relationship. The Board believes that eliminating such an assessment of effectiveness could result in the continuation of hedge accounting even when situations suggest that the hedge relationship may no longer be reasonably effective. Some observe that an implication of the decision to not eliminate any assessment after the inception of the hedging relationship could be that hedge accounting results would be reflected in some reporting periods and not in other reporting periods throughout the life of the relationship. Also, in a hedge accounting model that generally does not permit hedging of individual risks, changes in the relationship between the individual risks being managed and those not being managed could increase the likelihood that the hedging relationship would no longer be reasonably effective. That would result in hedge accounting no longer being permitted for a portion of an expected hedge term. That “in and out” of hedge accounting would make it more difficult for users to interpret financial statements.

Do you agree with the Board’s decision to continue to require that hedge accounting be discontinued if a hedge becomes ineffective? Alternatively, should an effectiveness evaluation not be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term?

Response: Yes, we agree with the Board that hedge relationships should be discontinued if circumstances suggest the relationship may no longer be effective. We also believe that requiring entities to continue to assess hedge effectiveness is appropriate even if only to qualitatively ensure that the hedged item still exists and no changes to contractual terms have occurred.

Issue 7: In the statement of operations, Statement 133 does not prescribe the presentation of gains and losses associated with hedging instruments, including the effective portion, the ineffective portion, and any amounts excluded from the evaluation of effectiveness, such as forward points. Some have suggested that such a prescription would improve financial reporting by creating consistency in the presentation of these amounts across all entities. Others observe that FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, requires disclosure about that information, and they question whether a prescriptive approach is appropriate given the diverse hedge accounting strategies employed by entities.

Do you believe that Statement 133 should be amended to prescribe the presentation of these amounts? For example, the Statement could require that the effective portion of derivatives hedging the interest rate risk in issued debt be classified within interest expense and that the ineffective portion and any amounts excluded from the evaluation of effectiveness be presented within other income or loss.

Response: We believe that prescriptive guidance over presentation of gains or losses associated with hedging instruments is not required. Existing disclosure is more than sufficient.

Issue 8: The Board's goal is to issue a final Statement by December 31, 2008. The proposed Statement would require application of the amended hedging requirements for financial statements issued for fiscal years beginning after June 15, 2009, and interim periods within those fiscal years.

Do you believe that the proposed effective date would provide enough time for entities to adopt the proposed Statement? Why or why not?

Response: The response to this issue depends in large part on: (a) the convergence of the proposed Exposure Draft to the IFRS rules; and (b) the proposed transition rules. We believe that it would not be beneficial to adopt the Exposure Draft if it is significantly different than the IFRS standard. We recommend that FASB work with the IASB to harmonize the hedge accounting guidance before requiring adoption in 2010.

Should the Exposure Draft achieve convergence with IFRS, we believe that implementation will require considerable time since new processes will need to be created and implemented in order to handle the revised hedge assessment requirements at inception and to maintain ongoing hedge accounting. In addition, we will need to document the new strategies and processes, and go through the education and approval process of all those directly involved.

Issue 9: The Board did not prescribe any specific transition disclosures upon the adoption of this Statement.

Do you believe that there are specific disclosures that should be required during transition? If so, what? Please be specific as to how any suggested disclosures would be used.

Response: Specific disclosures of the impact of adopting the new standard should be disclosed. We expect that the cumulative transitional adjustment will be recorded to opening retained earnings.

Issue 10: The Board decided to permit an entity a one-time fair value option election under FASB Statements No. 156, *Accounting for Servicing of Financial Assets*, and No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, for (a) servicing assets and servicing liabilities designated as a hedged item on the date immediately preceding initial application and (b) eligible financial instruments designated as a hedged item on the date immediately preceding initial application of this proposed Statement.

Do you agree with the Board's decision to allow a one-time fair value option at the initial adoption of this proposed Statement? Do you agree with the Board's decision to limit the option to assets and liabilities that are currently designated as hedged items under Statement 133?

Response: Yes, but this does not resolve our objections to issues highlighted in Issue 1.

Issue 11: The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. The benefit-cost considerations considered by the Board are provided in paragraphs A43–A50 in Appendix B of this proposed Statement.

Do you believe the Board identified the appropriate benefits and costs related to this proposed Statement? If not, what additional benefits or costs should the Board consider?

Response: We believe that the costs to implement this standard, as currently drafted, would outweigh the benefits from this standard.

Our company supports convergence of US GAAP with IFRS. The standard, as currently drafted, does not converge with IFRS. We are currently preparing to adopt IFRS in 2011 for our parent level financials, and will likely continue to report US GAAP for our US insurance subsidiaries for many years. We are concerned with the costs of adopting non-convergent US GAAP and IFRS standards.

We are not satisfied that benefits would be gained, regardless of convergence issues.