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August 15, 2008

Technical Director – File Reference No. 1590-100  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 81

RE: File Reference No. 1590-100

We are pleased to have the opportunity to submit comments on the June 6, 2008, Exposure Draft of a proposed “Statement of Financial Accounting Standards, *Accounting for Hedging Activities*—an amendment of FASB Statement No. 133” (the “ED”). Our comments on key concepts and concerns are discussed below.

Genworth Financial is a leading global financial security company dedicated to developing products and services to help meet the investment, protection, retirement and lifestyle needs of over 15 million customers, with a presence in 25 countries. As a financial security company, we utilize a comprehensive risk management strategy that includes the use of derivatives to mitigate certain risks, while actively managing others. Being a financial statement preparer and user, we are supportive of the stated objectives of the ED to simplify hedge accounting, improve financial reporting for hedging activities, and resolving major practice issues with the current guidance on accounting for hedging activities.

### **Overall**

While we believe the stated objectives of the ED are well intentioned, we agree with the views expressed in the “Alternative Views” section of the ED and do not believe the stated objectives of the ED will be achieved as a result of the proposed changes to hedge accounting. Accordingly, we do not support the ED as currently written and believe that any near term changes to simplify hedge accounting should, at a minimum, retain the ability to designate individual risks within a hedging relationship to meet the objectives outlined in the ED.

The proposed revisions to eliminate the ability to hedge individual risks (with certain limited exceptions) will decrease the overall usefulness of financial statements for entities with prudent risk management strategies and will add additional complexity to hedge accounting for certain common risk management strategies. The requirement to record changes in unhedged risks within a hedging relationship in current period earnings creates an inconsistency with the presentation for similar unhedged risks not included in hedging relationships, which typically does not require recognition in current period earnings. The resulting effect on financial statements will be a decrease in

transparency and usefulness of the information presented for entities with common risk management strategies.

We support the change of the effectiveness threshold for applying hedge accounting to “reasonably effective” and believe such change represents a reduction in the administrative burden associated with maintaining a qualifying hedge program. However, we do not believe this simplification will result in more entities applying hedge accounting if the revised Statement would no longer allow an entity to designate individual risks in a qualifying hedging relationship (as discussed above). Additionally, we also believe additional guidance would be necessary to better understand the concept of reasonably effective and to ensure consistent application of this principles-based approach.

In general, the proposed revisions in the ED introduce changes that do not represent an improvement in the existing guidance and also create additional volatility in financial statements that is not representative of the risks being hedged. As a result of this volatility and the administrative burden required to maintain a qualifying hedge program, we believe many entities will likely discontinue the use of hedge accounting for many common risk management strategies if the ED is adopted as currently written.

Given the likely convergence with IFRS in the foreseeable future, we believe any significant changes to current accounting guidance resulting in significant incremental costs should be considered with a specific emphasis on converging with IFRS. Considering the existence of the International Accounting Standards Board Discussion Paper, *Reducing Complexity in Reporting Financial Instruments* (the “DP”) – and the related Invitation to Comment issued by the FASB – that also contemplates simplifying hedge accounting, we believe any changes to existing hedge accounting guidance should be based on the due process of the DP along with discussions between the FASB and the IASB to ensure convergence for hedging activities. By adopting the proposed Statement as currently written, we believe the possibility exists that this proposed Statement will be inconsistent with ultimate revisions to hedge accounting as a result of convergence with International Financial Reporting Standards (IFRS).

In addition to these overall comments on the ED, we have included our responses to the issues outlined in the ED within the attached appendix. We appreciate the opportunity to comment on the ED. If there are any questions regarding the content of this letter or you wish to discuss our comments and recommendations, please contact Justin Etheridge at (804) 922-5084 or Rich Wiernasz at (804) 922-5582.

Sincerely,

/s/ Amy R. Corbin

Amy R. Corbin  
Vice President and Controller

### ***Hedged Risk***

*Issue 1: 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?*

By eliminating the ability to hedge individual risks for the majority of hedged items, the proposed revisions will likely result in less risk management strategies qualifying for hedge accounting and, in turn, will provide an incomplete representation relating to the results of an entity's risk management strategies. Even if certain strategies will continue to qualify for hedge accounting, there likely will be questions about whether entities will apply hedge accounting as a result of the additional volatility that will be introduced for the unhedged risks.

We believe the benefit of using hedge accounting is to allow the income statement presentation for qualifying hedges to be more representative of the economics of the underlying risk management strategy. By eliminating the ability to designate individual risks in hedging relationships, the financial statement presentation of these hedging relationships will no longer represent useful information to users. The resulting presentation would not allow a financial statement user to understand the effectiveness related an entity's hedging strategy for individual risks. The transparency of the added disclosures required by SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment on FASB Statement No. 133* will allow financial statement users to understand the effects of the current hedge accounting guidance without requiring any changes to the current hedge accounting practice of using the bifurcation by risk concept.

We also feel the proposed revisions to eliminate the ability to hedge individual risks will add additional complexity in how forecasted hedged items will classify for hedge accounting and how the hedged item will be measured for ineffectiveness when having to incorporate all risks. For example, an entity may choose to hedge the future purchase of a fixed rate investment to minimize the benchmark interest rate changes during the forecasted period. The proposed revisions would require an entity to measure the changes in all risks for the hedged item and would require that an entity specifically define the hedged item and measure ineffectiveness for an investment that may have a range of expected risk characteristics. This range of expected risk characteristics creates added complexity when assessing whether the relationship would continue to qualify for hedge accounting and when determining the amount of ineffectiveness on the qualifying hedge relationship (if applicable).

*Issue 2: Do you believe the Board should continue to permit an entity to designate those individual risks as a hedged risk?*

We believe the ability to designate these individual risks as a hedged risk should be permitted for all allowable financial liabilities, rather than just an entity's own debt, as the reasons for allowing such hedging of individual risks would be similar. Additionally, we agree with the comments in the "Alternative Views" section of the ED that an entity may choose to hedge these individual risks after issuance of their own debt in response to changes in interest rates and believe that entities

should be allowed to hedge these individual risks without restrictions on timing. Further, for the reasons noted in our response to Issue 1, we believe the ability to hedge individual risks for all hedged items should be retained as currently allowed in existing guidance.

### ***Hedge Effectiveness***

*Issue 3a: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for fair value hedging relationships and cash flow hedging relationships?*

We believe there are significant operational concerns with the implementation of the proposed changes in the ED. The complexities that will be introduced for calculating ineffectiveness of forecasted hedged items (described in Issue 1) will also result in additional operational concerns for developing the appropriate hypothetical derivative for the hedged item to calculate effectiveness, assuming the hedging relationship would continue to qualify under the ‘reasonably effective’ threshold.

For measuring ineffectiveness on all cash flow hedges, we recommend the finalized statement require the use of the “hypothetical derivative method” as outlined in DIG Issue No. G7 under Method 2, as this method is commonly used in practice and is well understood. Such method appears to be different than the hypothetical derivative described in the ED that would “exactly” offset the cash flows of the hedged item.

In addition to the operational concerns with calculating ineffectiveness on qualifying hedges, we believe there will be significant costs to de-designate previously qualifying hedge relationships that will no longer be designated as qualifying hedges upon adoption of the ED (discussed further in our response to Issue 4). As a result, accounting systems will need to be updated to appropriately track these de-designations to ensure the proper income statement recognition for the previously qualified portion of the derivatives. Based on the potential size of these de-designations, which we believe is considerable, the costs of implementing these changes in an entity’s accounting systems would be significant.

*Issue 3b: 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?*

We support the proposed elimination of the short-cut method and critical terms matching and do not believe these changes will have a significant impact on an entity’s financial statements.

*Issue 4a: Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?*

We believe the proposed change of the effectiveness threshold for applying hedge accounting to “reasonably effective” represents a reduction in the administrative burden associated with maintaining a qualifying hedge program and agree with these changes outlined in the proposed Statement as such changes help to simplify hedge accounting. However, we do not believe this

simplification will result in more entities applying hedge accounting if the revised Statement would no longer allow an entity to designate individual risks in a qualifying hedging relationship (as discussed in our responses to Issue 1). We also believe additional guidance would be necessary to better understand the concept of reasonably effective and to ensure consistent application of this principles-based approach.

*Issue 4b: 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?*

As noted in our response to Issue 4a, we believe additional guidance on the term “reasonably effective” is needed to fully understand whether these existing hedge relationships will continue to qualify. In general, we do not believe the majority of these situations will continue to qualify for hedge accounting without mitigating other risks associated with the hedged item. As a result, we think entities will likely discontinue hedge accounting for these relationships and would potentially reconsider these prudent risk management strategies due to the added volatility that is created from having a number of unqualified hedging relationships. Even if certain relationships would continue to qualify for hedge accounting, we feel the volatility introduced by the proposed revisions along with the administrative costs of maintaining a qualified hedging strategy (even with the potential reduction in these costs under the proposed Statement) would lead to fewer entities applying hedge accounting as a result of adopting the provisions in the ED.

*Issue 5a: Do you foresee any significant operational concerns 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?*

As noted in our response to Issue 4a, we feel that more guidance is needed to understand the meaning of “reasonably effective” as the effectiveness threshold. However, we do not believe there would be any significant operational concerns to create a process to determine when circumstances would indicate a hedging relationship is no longer reasonably effective. While we would need to implement a process to identify these situations, we do not feel this would create a significant operational burden. However, we do believe the ED introduces several operational concerns as discussed in our response to Issue 3a associated with calculating hedge effectiveness under the proposed Statement.

*Issue 5b: 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?*

As noted in our response to Issue 4a, we believe that more guidance is needed to understand the “reasonably effective” threshold. However, if the ability to designate individual risks as the hedged risk is eliminated, we do not believe that the criteria to require an effectiveness evaluation after inception under the circumstances described would result in a reduction in the number of times a hedging relationship would be discontinued. We believe the number of times a hedging relationship is discontinued under the proposed Statement would likely increase as a result of fluctuations in the unhedged risks outside of the normal, or average, expected scenarios that were contemplated upon qualifying for hedge accounting.

If the ability to designate individual risks as the hedged risk is still retained, we believe the number of discontinued hedging relationships would decrease. By only requiring this evaluation under a circumstance using the reasonably effective threshold, we believe that few circumstances would occur requiring the evaluation and, in turn, will reduce the number of hedging relationships that are discontinued.

*Issue 6: 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?*

We believe hedge accounting should be discontinued if the hedging relationship becomes ineffective. If hedge accounting were allowed for hedging relationships that become ineffective, the financial statements would be misleading and provide less useful information to users. We do not believe it would be appropriate to exclude certain hedging relationships from an effectiveness evaluation after inception as circumstances may change that may not be contemplated at inception and could indicate the hedging relationship is no longer reasonably effective. In such circumstances, we believe the more appropriate presentation is to discontinue hedge accounting for that relationship.

As described in our response to Issue 5b, we believe the elimination of the bifurcation by risk model would create more discontinued hedging relationships due to the fluctuations from the unhedged risks outside of the normal, or average, expected scenarios that were contemplated upon qualifying for hedge accounting. While we feel the Board should require effectiveness evaluations under the circumstances outlined in the ED, we agree with the concerns noted in the ED that the requirement to consider all risks in hedging relationships will likely result in hedge accounting no longer being permitted for a portion of an expected hedge term. By retaining the bifurcation by risk concept in hedge accounting, there would be very few relationships that would result in hedge accounting being discontinued and, as a result, would alleviate the concern about hedging relationships going “in and out” of hedge accounting.

*Issue 7: Do you believe that Statement 133 should be amended to prescribe the presentation of these amounts?*

We agree that the revised Statement should not prescribe the presentation of hedging activities in the financial statements. The disclosures required by SFAS No. 161 will provide financial statement users the transparency needed to understand the financial statement presentation for hedging activities without requiring prescriptive guidance that may be difficult to apply for all types of entities and industries.

*Issue 8: Do you believe that the proposed effective date would provide enough time for entities to adopt the proposed Statement? Why or why not?*

Based on the changes outlined in the revised Statement, we believe the proposed effective date does not provide enough time for financial statement preparers to adequately review their risk management strategy and implement the changes required by the proposed Statement. The additional complexities that will arise from eliminating the bifurcation by risk concept will require entities to review their current hedging strategies and decide the appropriate strategy to employ upon implementation of the proposed Statement. For those reasons, we would suggest the effective date be delayed for 12 months. However, if the bifurcation by risk concept is retained, we believe the proposed effective date would provide sufficient time to adopt the remaining provisions of the ED depending on when a finalized statement is issued.

*Issue 9: 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.*

We do not believe any specific transition disclosures should be required.

*Issue 10: 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?*

We agree with the provisions in the ED to allow a one-time fair value option election at initial adoption of this proposed Statement. However, this one-time election should be extended to all items allowed under SFAS No. 156 and SFAS No. 159, as the revisions outlined in the ED were not contemplated when most entities adopted these statements. Therefore, the option should not be limited to assets or liabilities included in a hedging relationship immediately prior to the adoption of this proposed Statement.

*Issue 11: 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?*

We do not believe the benefits of the proposed Statement outlined in paragraph A44 of the ED will be realized as a result of the ED. We disagree with the stated benefit that users of financial statements would be able to better assess the effect of hedging activities of an entity's financial statements. We believe users will be provided an incomplete view of an entity's risk management activities because less hedging relationships will qualify for hedge accounting and fewer companies will likely apply hedge accounting under the revised Statement. Even if an entity continues to apply hedge accounting, users will be presented with the volatility of unhedged risks for instruments in a

hedging relationship while similar instruments where hedge accounting is not applied will be presented differently despite the risks being similar and remaining unhedged.

We believe the benefit of improving comparability of financial statements between entities for measuring ineffectiveness can be achieved without adding the complexity that exists in the ED as a result of eliminating the ability to designate individual risks as the hedged risk. We also do not believe the proposed Statement will add more transparency of the risk(s) being hedged by an entity or the effectiveness of such relationships. While the ED would emphasize those risks not being hedged within a qualifying hedge relationship, we do not believe this information is useful to users since there could be significantly greater risks the entity is managing outside of a qualifying hedging relationship. Additionally, financial statements would have limited transparency into the effectiveness for common risk management strategies.

In addition to the costs outlined in the ED, we also believe that the revised Statement will result in additional complexities created as a result of eliminating the ability to designate individual risks as hedged items (described in Issue 1). These additional complexities would be eliminated if the ability to designate individual risks were retained. We also believe the benefits outlined in the ED will also be realized if the ability to designate individual risks is retained in the proposed Statement.