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Sent via email to director@fasb.org

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Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

RE: Impairment of Financial Assets Supplemental Document (File Reference No. 2011-150)

Genworth Financial appreciates the opportunity to comment on the joint Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB" or collectively the "Boards") Supplementary Document on Impairment of Financial Assets¹ (the "Proposal").

Genworth Financial, Inc. is a leading financial security company dedicated to providing insurance, wealth management, investment and financial solutions to more than 15 million customers, with a presence in more than 25 countries. We have substantial investments in debt instruments and loans and may be significantly impacted by the Proposal.

We recognize that the limited scope of the Proposal is focused on impairment of assets in an open portfolio but feedback is also being requested on the application of the proposed impairment model to other relevant assets such as closed portfolios and individual assets. We generally would not expect our assets to meet the definition of an open portfolio as, to appropriately manage risks, we perform an individual evaluation of the credit risk associated with our debt securities and commercial mortgage loans. Accordingly, our responses herein will primarily focus on the application of the proposed impairment model to individual assets or more broadly to any debt instruments or loans that would be evaluated for impairment.

Suitability Of Proposal To Closed Portfolios And Individual Assets

The Proposal should not be applied to assets that are evaluated individually. Additionally, if forced to apply the proposed impairment model to debt securities and other assets evaluated individually, the result would be increased complexity and costs for non-banking institutions where the distinction of 'good book'/'bad book' is not currently utilized. For debt securities, many companies do not incorporate historical loss rates when evaluating the expected cash flows of the individual debt

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¹ FASB Supplemental Document — Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment or IASB Supplement to Exposure Draft, ED/2009/12 Amortized Cost and Impairment

security under the current guidance for impairment because an entity has current information on the borrower/issuer of a debt security that enables it to project expected cash flows for the security and make a reasonable determination of expected losses.

If the Boards believe a single impairment model for all relevant financial assets is needed, we suggest the Boards develop the impairment model to allow an entity to evaluate the credit risk of the asset, consistent with appropriate risk management practices, at the <u>individual</u> or <u>portfolio level</u>.

Having the level at which impairment is measured determined based on an entity's evaluation of credit risk at the individual or portfolio level will be more easily distinguished by an entity and could be more easily supported and audited compared to the Proposal. Additionally, the differentiation into 'good book'/'bad book' as outlined in the Proposal would be difficult to apply to asset-backed or mortgage-backed securities because structured securities may have expected losses but may not necessarily be managed to maximize recovery (criteria for including in 'bad book').

Impairment recognition that is consistent with an entity's credit risk evaluation at an individual or portfolio level provides more decision useful information to investors compared to the Proposal, which appears to be more focused on earlier recognition and smoothing the recognition of impairment by applying historical losses for all assets regardless of the level in which credit risk is evaluated. Additionally, the Proposal would effectively result in a continuous 'impairment' that seems to contradict the conceptual definition of an impairment in other areas of accounting guidance, which is an event-driven or one-time recognition event.

Expected Losses

We agree with the aspects of the Proposal that requires impairment measurement using expected losses that are based on an entity's evaluation of the asset's credit risk. However, we disagree with certain aspects of the Proposal that appear to effectively assume that all assets should have an expected loss. We believe there should be a distinction between how the assets are evaluated (individual or portfolio) and that distinction should be the basis for determining how expected losses are measured. For assets evaluated individually, expected losses should only represent the losses that an entity 'actually' expects based on their projection of cash flows from that asset, not just a historical loss rate for a similar asset class. For assets evaluated as a portfolio, expected losses may represent an estimate of losses using historical information and reasonable/supportable information about future economic conditions if a reasonable estimate of expected losses cannot be produced for each of the individual assets.

While the Proposal does not provide guidance on how expected losses would be measured, the Proposal would effectively result in an entity relying on historical default rates in developing the estimate of lifetime expected losses. We believe such an approach may be appropriate when evaluating assets at a portfolio level but would not be appropriate when assets are evaluated individually. While we recognize historical loss rates may be available for certain assets evaluated individually (such as debt securities), we do not believe historical loss rates should be utilized and would not provide decision useful information when determining impairment for assets that are monitored and evaluated from a credit risk perspective on an individual basis.

For example, historical default rates for various time periods are available for 'AA' rated corporate debt securities. However, this information should not be utilized when measuring impairment if there is sufficient information available for the corporate debt security issuer that allows an entity to

monitor and evaluate credit risk on that individual asset and make a reasonable determination of expected losses for that asset. Rather than requiring the use of historical loss rates for measuring impairment of individual assets, we suggest the Boards consider disclosures of credit risk (such as groupings by credit rating) for assets evaluated individually to convey similar information to users of the financial statements.

While the Proposal does not address how an entity should determine the expected losses, the final guidance should explicitly state that any credit enhancement or guarantees associated with those assets should be considered when determining expected losses.

Impairment Model

The following provides our comments on the two impairment models/groupings outlined in the Proposal as well as how these models could be modified (as discussed above) to be applicable to all relevant financial assets evaluated for impairment.

'Good Book'

The time-proportionate approach described in the Proposal for the 'good book' model is operational for certain assets where this information has historically been retained or utilized when evaluating credit risk, such as certain loans or assets evaluated as a portfolio. For other assets where this type of information is not typically utilized, there would be significant additional costs to implement a similar approach and regularly obtain, review and utilize the information.

The requirement to determine expected losses for the foreseeable future would be difficult and costly to implement as a result of having to take a more detailed review of the near term expected losses of the portfolio. To alleviate these concerns if the concept of foreseeable future is retained in the final standard, a practical exception should be applied when a portfolio of assets are not expected to incur losses early in the life of the asset to allow an entity to utilize the impairment measurement determined using the time-proportionate approach.

Our proposed impairment approach where an entity evaluates the credit risk of assets at a portfolio level would utilize an approach similar to the 'good book' model in the Proposal. We would expect entities to evaluate assets at the portfolio level when there is not sufficient or reliable information to enable reasonable projections of expected losses at the individual asset level.

'Bad Book'

As a result of the Proposal requiring assets to be included in the 'bad book' based on when an entity's risk management shifts to maximizing recovery, we believe these assets ('bad book') would be evaluated individually at the point in time when the asset would be included in the 'bad book'. Accordingly, our proposed differentiation of how an entity evaluates the asset (individual or portfolio) is more easily determined and would result in 'bad book' assets, along with debt securities and certain other assets, being included in our model for assets evaluated individually.

The impairment allowance measurement for individual assets would be based on the entity's evaluation of the expected losses (if any) on the specific asset using all available and reliable information of both current and future economic conditions. In comparison to the Proposal for the 'bad book', we would expect our proposed measurement of expected losses on individually evaluated assets would result in the same impairment for assets that would be included in the 'bad book'.

For recognition of impairment on individually evaluated assets, an approach similar to the current U.S. GAAP impairment model for debt securities should be utilized. As stated previously, we would expect that if an entity has sufficient information to evaluate an asset individually and evaluates credit risk at this level, the recognition of impairment should not be based on historical loss rates but should be based on the entity's evaluation of the individual asset's expected losses (if any). This measurement approach for impairment of individual assets should clearly state that expected losses are based on an entity's evaluation of the credit risk and should only recognize an impairment in the event that an entity no longer expects to collect the contractual cash flows.

Similar to the impairment model for assets evaluated as a portfolio, reversals of previous impairments should also be allowed for individually impaired assets (limited to the amount of impairment recorded to-date).

Delayed Recognition Of Expected Credit Losses

The proposed changes to the impairment model for financial assets appear to be focused on addressing the weakness of delayed recognition for expected credit losses. We believe this weakness in the current impairment model was more closely associated with loans or other assets where losses must be considered probable before being recognized. The existing impairment model under U.S. GAAP for debt securities has not received similar criticism related to delayed recognition of losses and should be retained when an asset is evaluated individually for impairment.

The Proposal addresses the issue of delayed recognition of expected losses for assets (such as loans) evaluated as a portfolio where asset or borrower specific information is not available or reviewed periodically in determining the credit risk (or expected losses) of the assets. For example, an entity would not have access to current borrower information of a residential mortgage loan that would allow an entity to make a reasonable assessment of the borrower's current ability to continue to make loan payments and, therefore, may evaluate a portfolio of similar residential mortgage loans in determining whether a loss is expected in the future. The Proposal would require an entity to project expected losses and recognize the impact of those losses over time as opposed to waiting until an issue is identified with a particular loan (past due, default, etc.). Accordingly, the recognition of losses would be recorded earlier under the Proposal.

We support this change in the impairment model when assets are evaluated as a portfolio but do not support applying this same approach for assets where current information is available and individual evaluation provides a specific and more accurate determination of impairment.

We appreciate the opportunity to comment on the Proposal. If there are any questions regarding the content of this letter or you wish to discuss our comments and recommendations, please contact me at (804) 662-2685 or Matt Farney, our accounting policy leader, at (804) 662-2447.

Sincerely,

Amy R. Corbin

Vice President and Controller

AmyR. Corbin