August 15, 2008

Via Electronic Mail to: director@fasb.org
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

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

Dear Technical Director:

MetLife, Inc. ("MetLife") appreciates the opportunity to respond to the referenced exposure draft ("Proposed Statement"). MetLife, as a leading manager of insurable and financial risks, uses derivatives as an integral part of its risk management strategy. We commend the Financial Accounting Standards Board ("FASB" or "Board") on its continuing efforts to improve transparency, consistency and clarity in the area of financial instrument accounting and reporting.

We support the Board’s objectives of simplifying the accounting, improving the financial reporting and resolving practice issues for hedging activities. Some of the proposed changes may be effective initial steps in reaching these objectives. However, MetLife believes that the Proposed Statement is, in many ways, counter to those stated objectives. We strongly agree with the concerns expressed by the two Board members in the Alternative Views section of the Proposed Statement’s Appendix A ("Appendix A").

Contrary to the stated objective, we believe removing the ability to attribute risks will actually have the consequence of making financial statements less useful. Companies are unlikely to alter risk management strategies in response to the proposed accounting changes. We believe a likely consequence of the proposal to remove the ability to designate individual risks will be a drastic reduction in the application of hedge accounting. When current hedging strategies are maintained without hedge accounting, the resulting financial statements under the Proposed Statement will not accurately reflect the effectiveness of a prudent risk management strategy. Such strategies are typically focused on hedging discrete risks while managing other risks without the use of derivatives.
In addition, we would also like to understand the Board’s rationale with respect to the proposed changes to Statement of Financial Accounting Standards No. 133 (“SFAS 133”) Paragraph No. 13b, which provides conditions for the clearly and closely related embedded derivative evaluation. We are aware of the practice issues related to the application of this paragraph including those addressed by the Derivatives Implementation Group (“DIG”). However, the reasoning behind these seemingly minor changes is unclear. Accordingly, we recommend that Appendix A be updated to provide a basis for conclusion supporting the proposed changes to Paragraph No. 13b.

The attached responses address the specific questions included in the Proposed Statement. We believe that further consideration of the points highlighted in our responses, which are consistent with the Alternative Views, would result in realization of the benefits being promulgated by the Proposed Statement.

Please contact me if you have any questions regarding our responses.

Very truly yours,

cc: Sandra J. Peters  
Vice President & Corporate Controller

Robert C. Tarnok  
Vice President Technical Accounting Services Unit
MetLife’s Responses to Questions in Notice for Recipients and Other Comments on the Proposed Standard’s Provisions

**Hedged Risk**

*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?*

We believe the elimination of the ability to designate individual risks in hedging relationships will impair the usefulness of financial statements. We encourage the Board to continue to permit the hedge by risk model for all financial instruments in order to enable derivative users to align the hedge accounting with their company’s risk management strategy.

Financial services companies, including insurance companies, are in the business of managing financial risks. Part of this risk management process requires significant use of derivative instruments designed to manage discrete risks while maintaining exposure to other risks. For example, a very common risk management strategy uses an interest rate swap to hedge the interest rate exposure in a fixed rate corporate bond such that its duration better matches the liability it was purchased to support. Since the credit spread represents the company’s profit margin, it is managed but not necessarily hedged.

We believe that companies are unlikely to change their risk management strategy in response to the elimination of the hedge by risk model. As a consequence of this proposed amendment, many companies will not seek hedge accounting for derivatives used in valid risk management strategies. This could result in significant income statement volatility which could be misinterpreted by financial statement users as an execution of a poor risk management strategy. This potential outcome is contrary to the Board’s stated objective of improving the usefulness of financial statements.

With respect to the reasons given in Appendix A supporting the removal of the hedge by risk designation, we disagree with the premise that one attribution model should be required for all instruments. Paragraph No. A15 describes a perceived inequity that financial instruments currently have an attribution by risk model that nonfinancial instruments do not have. We do not believe that this perceived inequity necessarily has to be resolved by removing attribution for financial instruments. Hedging of financial and nonfinancial instruments is very different. Financial instruments frequently trade based on attributed risks whereas many nonfinancial instruments trade based on price. Unlike hedging relationships involving nonfinancial instruments, derivatives hedging discrete risks in financial instruments are readily attainable and attributing the change in fair value for the three currently permitted risks (SFAS 133 Paragraph Nos. 21f and 29h) is not overly complex.
We also disagree with the concerns highlighted in Paragraph No. A16 that, when only select risks are designated, unhedged risks are not reflected in the financial statements. In many cases, the unhedged risks are either recognized in the financial statements or disclosed. For example, the unhedged credit risk in the above example would be recorded in accumulated other comprehensive income. Risks that an entity chooses not to hedge should not be reflected in the income statement simply because the entity is managing select other risks of that financial instrument.

If it is the Board’s intent that the removal of the hedge by risk model is an interim step towards full fair value, we feel that the results of this intention are potentially misleading. Specifically, a hedged item in a fair value relationship (that is not otherwise reported at fair value) will only be at fair value when it is designated on the same date it is initially recorded on the balance sheet. Otherwise, the hedged item will be adjusted for changes in fair value subsequent to designation but will not be on the balance sheet at fair value. As a result, there may be confusion as to what is actually at fair value on the balance sheet.

**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?

Yes. The Board should continue to permit the designation of these individual risks for these strategies. However, the ability to designate by risk should also be allowed for all other financial instrument strategies as currently permitted under SFAS 133. We believe that there is no basis for limiting the use of hedge by risk to certain strategies involving financial instruments. Any basis for such limitation would be arbitrary. It is inconsistent to have two hedge accounting models for essentially similar financial instruments if the only difference is whether the financial instrument is an asset or liability. Such difference does not change the risk management strategy and should not alter the accounting model.

Under the Proposed Statement, changes in creditworthiness would not be reflected in earnings if the relationship is designated at inception but would be reflected in earnings if designated at a later date. One company could choose not to hedge the risk of interest rate change at the time of debt issuance and another company could decide to hedge such risk at date subsequent to debt issuance. Under the proposed guidance, hedging measurement for the two companies would be different for essentially the same strategy.

We are concerned with possible varied interpretation of “own debt or other borrowings” as used in Paragraph No. A54 of the Proposed Statement vis-à-vis certain liabilities such as structured settlements and securitized borrowings. Therefore, we recommend that this exception be permitted for any liabilities that are financial instruments to avoid interpretation risk.
Hedge Effectiveness

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?

MetLife does not foresee significant operational issues with calculating ineffectiveness for fair value relationships that are currently assumed to be highly effective. MetLife currently calculates ineffectiveness for many such relationships albeit on an attribution by risk model. While we do not anticipate operational issues, it should be noted that, absent the ability to calculate this ineffectiveness on risk attributed basis to match the economics of the risk management strategy, MetLife does not believe there will be many situations where this calculation will be used (see response to Issue 4).

Paragraph No. 23 of this Proposed Statement supersedes the guidance in DIG Issue G7 which introduced the concept of a hypothetical derivative. We believe that this change will create significant interpretive issues and operational constraints when calculating ineffectiveness for cash flow hedges. To remedy this, MetLife recommends that Paragraph No. 23 be amended to include the concept of a hypothetical derivative that is similar to what is currently described in DIG Issue G7. Further, this amendment should include guidance that the hypothetical derivative is one that is aligned with the substantive critical terms of the hedged item but not by definition a “perfect” derivative.

While cash flow hedges of existing financial instruments may not be materially impacted by the removal of the attribution by risk model, cash flow hedges of anticipated liabilities will be significantly more difficult, if not impossible, to achieve. Without attribution, this type of relationship will require developing a theoretical derivative in order to assess effectiveness and measure ineffectiveness based on overall changes in cash flows. In order to do this, the theoretical derivative will need to include all elements that may impact cash flows including the credit spread. Since a derivative of this type does not exist in the marketplace, setting the terms will be subjective. Because of these complications, we believe that hedge accounting for this very common hedging strategy will no longer be viable.
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?

While MetLife does believe that there may be certain hedging relationships where shortcut or critical terms match is appropriate, given the practice issues associated with these methods, we are supportive of removing these “rules”. The recognition of all ineffective amounts, however small, will result in improved financial reporting.

**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?

MetLife fully supports the lowering of the threshold to reasonably effective. However, the benefits associated with this change are nullified by the simultaneous removal of the attribution by risk model for most hedging relationships. Further, in the absence of a continuation of the attribution by risk model, the definition of reasonable effective is not clear. The concept of reasonably effective as currently defined is vague and may result in broad interpretative applications of the requirement. Specifically, it is unclear to us (i) whether reasonably effective is even attainable when all risks in the hedged item are not covered by the derivative and (ii) when quantitative tests would be required. Without clarification of these two items, it is likely that auditors will insist on the same level of quantitative analysis currently required today.

Additionally, it is unclear as to how lowering of the assessment hurdle interplays with the portfolio test as currently described in Paragraph No. 21 of SFAS 133. We recommend that this paragraph also be amended to allow for a similar, more qualitative test.

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?

As described in Issue No. 1, a common strategy currently employed by companies is an interest rate swap designated as a fair value hedge of interest rate risk in an available for sale corporate bond. Based on the current guidance in the Proposed Statement, it is unclear to us whether or not this strategy will continue to qualify for hedge accounting. Specifically, because the interest rate swap provides zero offset for changes in credit, there is no economic relationship for this component of the hedged item’s change. Therefore, we are uncertain as to whether an assertion of reasonably effective can be made even if the changes in credit are expected to be de minimus. Because of this uncertainty, we request that the standard provide additional guidance on how to perform the reasonably effective assessment when the derivative does not hedge all of the risks of the hedged item.
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?

It is unlikely that MetLife will alter its risk management strategy or the types of derivative instruments currently being used as a result of the guidance in the Proposed Statement. Therefore, if the guidance in the Proposed Statement is adopted, the probable result would be the cessation of hedge accounting. It is possible that we would consider using the fair value option for certain fair value relationships. However, use of the fair value option is unlikely because it does not retain the benefits of the attribution by risk model. Additionally, the fair value option is not a viable alternative for cash flow designation.

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 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?

MetLife’s concerns are less operational than definitional. We recommend further clarification of the terms “reasonably effective” and “change in circumstances”. To most effectively answer this question, we would need to understand the application of reasonably effective at inception (see response to Issue 4). Some of these definitional questions could be resolved if examples were included in the Proposed Standard.

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?

We are unable to respond to this question without clarification of what is meant by reasonably effective.
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?

MetLife agrees with the continuation of this requirement.
Presentation of Gains and Losses

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.

MetLife believes that the current disclosure requirements as amended by SFAS 161 are sufficient and that SFAS 133 should not be amended to include prescribed presentation of hedge accounting results.
Effective Date

**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?

We do not understand the timing of the effective date of the Proposed Statement with respect to planned convergence with International Accounting Standards. The International Accounting Standards Board ("IASB") and the FASB are in the process of reconsidering the entire framework for financial instruments as outlined in the IASB’s Discussion Paper *Reducing Complexity in Reporting Financial Instruments* ("Discussion Paper") and the FASB’s related Invitation to Comment. The hedge by risk model is still listed as an alternative in the Discussion Paper. Additionally, the IASB recently released an amendment to International Accounting Standards 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") explicitly clarifying that hedging specific risks is permissible. Under IAS 39 as amended, the guidance relating to risks that can be separately hedged is actually broader than the currently permitted risks under SFAS 133. Based on these developments, any change to SFAS 133 to remove the hedge by risk model seems premature if there is the possibility that the IASB will maintain the hedge by risk model.

If the final standard is substantially similar to the Proposed Statement, having sufficient time to adopt would not be an issue as it is anticipated that adoption will largely be a de-designation exercise with minimal hedging relationships designated prospectively.

**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.

MetLife does not believe there is a need for prescribed transition disclosures.
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?

MetLife agrees with permitting a one-time fair value option election at the initial adoption of the standard. However, we do not agree with limiting the election to only those assets and liabilities in existing hedging relationships. Any asset or liability that is eligible to be in a hedging relationship at adoption should also be permitted this election since it could be in a hedging relationship in the future. The fact that an asset or liability is or is not in a hedging relationship at adoption should not have a bearing on the election.
Benefit-Cost Considerations

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?

No. We encourage the Board to reconsider the limited benefits of this Proposed Statement in the context of the “cost” associated with the anticipated significant reduction in the application of hedge accounting and increase in income statement volatility.