RE: Financial Instruments—Credit Losses (Subtopic 825-15) (File Reference 2012-260)

Genworth Financial, Inc. (“Genworth”) appreciates the opportunity to comment on the Financial Accounting Standards Board (the “Board”) Exposure Draft on Credit Losses (the “Proposal”).

Genworth is a leading financial services company dedicated to providing insurance, investment and financial solutions to more than 15 million customers, with a presence in more than 25 countries. We have significant investments in financial assets that will be subject to the proposed credit loss guidance.

Overall Concerns with the Expected Loss Model & Recommendation

While we agree with the Board’s objective to provide more decision useful information about expected credit losses, we do not believe the existing incurred loss model should be replaced with an expected credit loss model that would result in virtually every financial instrument having an expected credit loss reserve, especially financial instruments carried at fair value. The expected credit loss model will result in losses effectively being recorded upon purchase of a financial asset, where the recognition of this day 1 loss is not consistent with a market transaction. Adoption of the Proposal for securities would result in changing from a model that recognizes impairments on individual instruments as they occur to a model that recognizes impairments up-front based on historical information for similar securities and would create inconsistencies in U.S. GAAP as other asset impairment models are based on incurred loss. We recommend the Board retain the existing impairment model for securities, which is based on when an entity’s best estimate of cash flows have decreased since origination or acquisition, and use that impairment model for other financial assets.

The application of the proposed model will effectively result in an entity performing a group evaluation of financial assets that have similar characteristics and determining the appropriate factor that should be applied to measure the expected credit losses. Additionally, we expect that individual assets that would be considered other than temporarily impaired (“OTTI”) today may require separate evaluation due to the existence of more specific information on the individual asset that would result in a more accurate measurement of expected losses. As a result of performing this separate evaluation, we believe the expected credit loss reserve will remain relatively constant over time for the portfolio of assets being evaluated but will change significantly when events occur that would result in an individual asset being evaluated separately. As a result, we believe the impact on
the income statement from the expected credit loss model may not be significantly different than the existing impairment guidance.

The weakness noted by the Board in the existing impairment model that resulted in the overstatement of assets caused by delayed recognition of impairment was primarily a concern related to loans, as opposed to securities or other financial assets. With respect to securities that are recorded at fair value, the concern about the overstatement of assets was not relevant because the balance sheet measurement always represented fair value and, therefore, was never overstated. Additionally, the amendments to the impairment guidance for securities in 2009 is proof that delayed recognition was not an issue for securities and resulted in reversing prior impairments that were recorded for securities based on writing the cost basis down to fair value. The new impairment guidance for securities adopted in 2009 was developed during the financial crisis, has been applied over several years, is well understood by investors, and should be retained.

By reflecting impairment losses on individual instruments when they occur rather than when a financial asset is purchased, the existing incurred loss model in U.S. GAAP for securities provides more decision-useful information to users on the financial performance of an entity. While expected losses may provide useful information by quantifying a reserve that could be used to assess the credit quality of an entity’s investments, this type of information would be more appropriate to provide through disclosures about credit quality to enable users to make their own determinations or comparisons of the credit risk associated with an entity’s financial assets. As the credit quality of an entity’s financial assets typically does not vary significantly from period to period, footnote disclosures would provide useful information on the credit quality of an entity’s financial assets without distorting net income from changes in the size or credit quality of financial assets.

Additionally, other impairment guidance for assets within U.S. GAAP is based on an incurred loss model (intangibles, long-lived assets, goodwill, etc.). While financial assets are clearly the focus of the Proposal, a fundamental shift from an incurred loss impairment model to expected losses for financial assets is not consistent with retaining an incurred loss model for the determination of impairment for non-financial assets. We see no basis for moving away from an incurred loss model for financial assets while still retaining an incurred loss model for other assets in U.S. GAAP. The Board could make limited modifications to the existing incurred loss guidance to remove the ‘probable’ threshold that currently exists for determining impairment for certain assets and could develop one impairment model for financial assets based on the existing impairment guidance for securities using an entity’s best estimate of cash flows.

Recommended Improvements to the Proposed Expected Loss Model

If the Board decides to move forward with an expected loss model for financial assets, the following sections provide our comments on the proposed guidance.

Scope

The scope of the proposal would include any financial asset, including reinsurance receivables, high quality government bonds, cash and cash equivalents, and other short-term investments. We are concerned about including reinsurance assets within the proposed guidance and do not believe the separate measurement of an allowance for credit losses is appropriate. Amounts due from reinsurers for incurred losses are either short-term in nature with negligible collection risk, or long-term, in
which case the required measurement of probability-weighted cash flows would already consider the possibility of a credit loss. We recommend reinsurance assets be excluded from the scope of any impairment proposal and be addressed entirely within the Insurance Contracts project.

In addition, short-term and/or high-quality financial assets should be excluded from the measurement of expected credit losses as the benefit of establishing a reserve based on expected losses would not exceed the cost/burden on preparers to determine such estimates. For example, cash on deposit with a financial institution and cash equivalents would be in-scope of the Proposal and would require an entity to determine expected credit losses. For cash that is on deposit with a financial institution, this would effectively require consideration of both the financial institution going insolvent and not being able to repay account holders as well as the inability for the government to reimburse account holders for any amounts insured (if applicable) by a government agency (FDIC). The cost of determining expected credit losses will outweigh the limited, if any, benefits of providing this type of information to users.

We recommend the Board either exclude these types of assets from the scope of the proposal (which would result in the existing loss contingency guidance applying to those assets) or include these types of assets within a practical expedient that would not require the measurement of expected credit losses when the fair value exceeds amortized cost or when expected credit losses for the individual asset are insignificant.

**FV-OCI Assets**

For assets that are recorded at fair value with changes in fair value recognized in other comprehensive income (FV-OCI), we believe the OTTI guidance that exists today for available-for-sale securities would be a more appropriate model to apply to these assets. Since these assets are already recorded at fair value, the expected credit loss reserve effectively reduces the net amortized cost basis, which in-turn simply impacts that amount that is recorded in OCI for FV-OCI assets. We do not believe measuring expected losses for FV-OCI assets and recording that amount in the financial statements provides decision useful information, especially for those assets that are in an unrealized gain position. While an expected credit loss reserve would provide a quantitative indicator of the credit quality for FV-OCI assets, similar credit quality information could be provided in disclosures, which would significantly reduce the burden on preparers while still providing the type of information desired by the Board. The existing OTTI guidance would provide users with relevant information when an entity’s best estimate of cash flows has decreased for an individual asset and would provide more decision useful information compared to an expected loss model. As a result, we recommend the Board exclude FV-OCI assets from the Proposal and utilize the existing OTTI impairment model for FV-OCI assets.

**Non-Accrual**

The Proposal includes guidance on when a financial asset should no longer accrue interest (“non-accrual status”). This guidance would significantly change existing practice for securities where non-accrual is not a concept that is typically applied, as securities continue to recognize interest income using the effective yield based on either the amortized cost or written down amortized cost basis (in the event an OTTI was recorded). As a result of existing guidance, we continue to recognize interest income on structured securities where our estimates of cash flows have decreased but the security can be held for an extended period of time subsequent to recording an OTTI. Under
the proposed guidance, we would likely be required to put many of these assets on non-accrual status and would not recognize any income until our cost basis was recovered. While we believe non-accrual could be appropriate for assets that would be resolved over a short time period after meeting the probable threshold of incurring a loss (for non-accrual status), there are other instruments such as structured securities where there could be an extended period of time and significant continuing cash flows that would occur after meeting the non-accrual threshold where investment income could be significantly impacted. We recommend the Board remove the guidance for non-accrual from the Proposal, which will likely result in existing non-accrual practices continuing.

Definition of Purchase Credit Impaired
We are concerned with the definition of purchase credit impaired (“PCI”) assets in the Proposal (to describe how the expected loss model should be applied upon purchase), which is “assets that are purchased where there has been significant credit deterioration since origination.” The existing U.S. GAAP PCI definition includes a ‘probable’ threshold of loss to determine if an asset meets the requirement to apply the PCI model. We believe the proposed definition of PCI should be replaced with the existing definition and, therefore, would not unintentionally impact or create additional burden on an entity to evaluate each asset purchased and whether there was significant deterioration since origination.

Proposed Guidance on Deferred Tax Assets
We believe the Board should consider the indirect impact of the Proposal on the assessment of recoverability for deferred tax assets (“DTAs”). The Proposal will likely result in additional deferred tax assets being recorded as a result of establishing an expected credit loss reserve. As a result, an entity will need to assess the recoverability of this DTA. While entities evaluate recoverability of DTAs for loss reserves under existing accounting guidance (for example, loan loss reserves), the amount of the current reserve is relatively small and generally does not present recoverability concerns. In addition, these types of loss reserves that are established for loans or receivables under existing impairment guidance will generally be included within ordinary income for tax purposes if or when the loss is realized.

For securities subject to the proposed guidance, however, entities would be required to establish an expected credit loss reserve and may need to demonstrate recoverability of the DTA by showing the ability to have capital gains for tax purposes, in order to match the tax character of the loss on a security (which is generally treated as a capital loss). The recoverability analysis of this DTA created indirectly as a result of the Proposal would be more difficult to support due to the size of the reserve and tax character of the losses. Additionally, the reserve would relate to losses that may never be recognized for tax purposes and may result in increased volatility in valuation allowances related to DTAs.

This issue is similar to the one addressed by the Board in the proposal for classifying and measuring financial assets, where the Board addressed DTAs on unrealized losses recognized in OCI. We urge the Board to consider this indirect implication from the Proposal on DTAs as a part of the Board’s re-deliberations on the Proposal or in combination with the feedback received from the classification and measurement proposal.
Effective Date Alignment with Other Projects

We urge the Board to align the effective date of the Proposal with any changes that are made as a result of the Board’s Financial Instrument Classification & Measurement and Insurance Contracts projects. Given the significant interaction among these projects, we believe the alignment of the effective dates will minimize the impact on financial statement users from having multiple, significant accounting changes occur over several years.

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 Matt Farney, Deputy Controller, at (804) 662-2447, Justin Etheridge, Director Accounting Policy, at (804) 922-5084 or me at (804) 281-6321.

Sincerely,

[Signature]

Kelly L. Groh
Senior Vice President, Financial Reporting and Operations; Chief Accounting Officer