May 31, 2013

Ms. Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update — Financial Instruments — Credit Losses
(Subtopic 825-15)

Dear Ms. Seidman,

This letter is the response of Manulife Financial Corporation ("Manulife") to the proposed accounting standards update ("ASU") recently released by the Financial Accounting Standards Board ("FASB") entitled Proposed Accounting Standards Update—Financial Instruments—Credit Losses (Subtopic 825-15).

Manulife appreciates the invitation to comment on the FASB's ASU addressing the accounting for credit losses. Manulife is a leading international financial services company providing wealth and asset management, financial protection and insurance solutions for our clients' most significant financial decisions, operating in 24 countries. We have a large US investor base and several of our largest subsidiaries currently report under USGAAP. Manulife has always been an active participant in the development of the accounting standards related to impairment of financial instruments. Our recent activities related specifically to the accounting for credit losses have included participation in industry and professional associations including the American Council of Life Insurers ("ACLI") and the Canadian Life and Health Insurance Association ("CLHIA"). We are also participating in the FASB's field testing of the proposed ASU. Our comments incorporate and are informed by our findings and observations from the field test.

We support the FASB's ongoing project to make improvements in the accounting for credit losses on loans and certain other debt instruments. We agree that for certain instruments more timely recognition of expected credit losses and more transparent information about the reasons for any changes in those estimates is required. We have experience in developing and estimating expected losses in the measurement of fixed income securities which is incorporated in the current Canadian accounting framework for insurance contract liabilities. Consequently, we believe an expected loss model can be achieved in practice, however, we have some concerns about the scope and effective date of the proposal as follows:

1. The proposed ASU would result in recognition of losses upon acquisition or issuance of a financial asset. We acknowledge that in a portfolio of certain asset types, some amount of day 1 loss may be warranted, but do not believe such provisions are appropriate in all cases. Specifically, we believe this requirement should be limited to assets with lower credit quality on origination that are not traded in active markets. Day 1 losses do not accurately reflect the economics of certain assets, especially those traded in active markets whereby expectations of credit losses are incorporated into the transaction price.
2. We believe that the practical expedient for assets measured at fair value through other comprehensive income (FVOCI) should be modified to address (a) the day 1 loss issue and (b) some operational concerns.

3. The FASB and IASB should continue to enhance convergence of the impairment standard.

4. The effective date of the credit losses ASU should be aligned with the insurance contracts ASU and all other financial instruments ASUs, particularly recognition and measurement. Furthermore, we believe a minimum 3-year period between issuance and effective date of the standard is required.

Each of these concerns is elaborated below.

**Concerns over recognition of losses upon acquisition or issuance of a financial asset**

We support an impairment model that is forward-looking and that requires earlier recognition of expected credit losses. However, we have concerns with the FASB's model which requires recognition of lifetime expected credit losses at origination, in all circumstances. In particular, we are concerned that these requirements cause reporting entities to recognize a discount to the transaction price and a charge to income at acquisition or origination. In certain circumstances, when measuring a provision for credit losses at the portfolio level (i.e., a level higher than where the assets are priced) we agree that some amount of additional provision may be required at origination or acquisition. This provision could be viewed as taking into consideration factors not known on origination for particular borrowers, which may be known by other market participants and that may arise in future. However, for assets that are acquired and readily traded on exchanges, the expectations around future credit losses are factored into the purchase price based on the views of all market participants. Assessing credit losses on a portfolio basis for such assets, in our view, would not change the amount of credit loss that is warranted to be reflected in the financial statements, as it could not be substantiated by any available information. Accordingly, we favor a model that limits the amount of provision for credit losses on initial recognition for assets that have insignificant credit risk or that are traded in an active market.

**Practical expedient for FVOCI instruments**

As described above we believe that the resulting model for recognizing credit losses should not always result in day 1 losses, especially for those assets with high credit quality and those traded in active markets. Under the proposals, a practical expedient is provided for assets measured at FVOCI when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost amount of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. As both criteria must be met, this exclusion from recognizing credit losses would only be applicable subsequent to initial recognition, due to the impact of transaction costs recognized on acquisition. Consequently, it is possible that the day 1 loss recognized could be reversed in the next reporting period and not recognized again throughout the life of the instrument if both criteria continue to be met (e.g., this may apply to assets such as US & Canadian government securities, or other highly rated debt instruments, as such instruments are expected to have insignificant credit losses due to their strong creditworthiness). This may be confusing to users to recognize a contribution to income for which there was no change in circumstances around expectations of credit losses. Also, we believe that the expedient as currently proposed does not provide operational relief, as processes and controls must be established to evaluate the second part of the test. In some cases, these processes may require as much effort as applying the provisions around estimating an expected loss. To address the issue around the recognition of day 1 losses and to provide additional operational relief, we
recommend that the practical expedient should be permitted if either (a) or (b) is applicable.

**Increased convergence between USGAAP and IFRS**

Convergence between USGAAP and IFRS in this area of accounting is critical. We recommend that the FASB continue to work with the IASB to achieve a converged standard for credit losses consistent with the original objectives of the joint project. The need for convergence has been highlighted by several groups over the past several years including the Basel Committee on Banking Supervision and the G20. Convergence should include a harmonized credit impairment model as well as harmonized release and effective dates for the standards on impairment, recognition and measurement, and insurance contracts.

Due to the level of judgment and operational procedures necessary to support the requirements, convergence in this area is also important to filers and users who operate in various jurisdictions. Further, convergence would benefit users of the financial statements by providing increased comparability of the accounting for in-scope financial assets. The recent financial crisis has illustrated the importance of having a consistent global basis for communicating and measuring impairment losses on securities, irrespective of whether the security is held. These assets represent a significant portion of the balance sheet for most insurers and financial institutions.

**Effective date of proposal**

As communicated recently in our response to the proposals for recognition and measurement of financial instruments, Manulife strongly believes that the effective date of the proposed ASU for credit losses should be aligned with the effective dates of the projects on insurance contracts and recognition and measurement of financial instruments. Adoption of the standards at different dates would cause in scope entities to have multiple major changes in financial reporting in short succession causing additional complexity and inconsistency in financial instrument accounting. This would result in significant additional costs to preparers and would reduce decision usefulness to users of the financial statements. We also believe that at least three years will be required to successfully implement these requirements.

Yours Sincerely,

Lynda Sullivan, CA, CPA
Executive Vice President and Controller

cc:
Steve Easson, Vice President and Chief Actuary, Canadian Life and Health Insurers Association, Inc