



Lynda Sullivan CA, CPA
*Executive Vice President &
Controller*

May 15, 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— Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

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 *Financial Instruments— Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*.

Manulife appreciates the invitation to comment on the FASB’s recognition and measurement ASU. 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 subsidiaries currently report under USGAAP in the US. Manulife takes pride in providing leadership in our industry on many fronts, including our involvement in the development of all major USGAAP standards affecting financial institutions. Our recent advocacy activities related specifically to recognition and measurement of financial instruments have included participation in industry and professional associations including the American Council of Life Insurers (“ACLI”), the Canadian Life and Health Insurance Association (“CLHIA”) and the Insurance Accounting Task Force (“IATF”) organized by the Canadian Accounting Standards Board (“AcSB”). Alongside the FASB we also participate on the IASB’s Insurance Advisory Working Group.

We support the FASB’s ongoing project to develop a consistent, comprehensive framework for recognition and measurement of financial instruments. We agree that a decision useful framework should link the measurement of financial assets to the way in which companies expect to benefit from the cash flows embedded in those assets and should link the measurement of liabilities to how companies expect to settle those liabilities. Furthermore we believe a decision useful recognition and measurement model should reduce or eliminate accounting mismatches on the balance sheet and ensure that liabilities and the assets backing them are measured consistently. We believe the FASB’s proposal to classify some financial instruments at amortized cost (“AC”) or fair value through other comprehensive income (“FVOCI”) based on cash flow characteristics and business model helps achieve these objectives. However, we believe additional changes are required and have several suggestions for improvement of the ASU.

1. The FASB and IASB should continue to work together to reduce the few remaining differences in their standards to fully achieve the goal of a converged recognition and measurement model. This should include a simple, converged approach for application of the business model test as well as converged application guidance and effective date.
2. The FVOCI category should be permitted for all financial instruments if such a classification eliminates or significantly reduces an accounting mismatch in accumulated other comprehensive income ("AOCI").
3. The effective date of the recognition and measurement ASU should be aligned with insurance contracts ASU and all other financial instrument ASUs including impairment.

Convergence with USGAAP

We appreciate the Boards' commitment to a converged classification and measurement model. We encourage continued collaboration on the joint project as the model nears finalization. We believe that any guidance provided on application of the business model test, specifically around what types of sales are permitted, should be converged to ensure decision useful information that would not be interpreted as overly restrictive. We also believe the converged model should include a FVOCI category with recycling to net income for equities as further outlined in our FVOCI section below.

Additionally, we believe that in the interest of convergence the effective date of the ASU should be aligned with the IASB's effective date for IFRS 9. During our advocacy efforts we have worked with many industry associations and audit firms with multinational interests, all whom share the desire to alleviate reporting burden across jurisdictions and prefer simultaneous adoption of major new financial reporting changes.

Fair value through other comprehensive income measurement category

Manulife believes that an option to elect FVOCI treatment should exist for all assets, including both debt and equities, in instances where an accounting mismatch can be eliminated or significantly reduced. A FVOCI election would provide more decision useful information to users about assets backing insurance contract liabilities that are also required to be measured at FVOCI. We recommend the FASB include an option to record financial assets at FVOCI when such election would eliminate or significantly reduce an accounting mismatch.

If the FVOCI category is not extended to all debt instruments, even those which fail the cash flow characteristics test, a less attractive secondary alternative would be to permit continued bifurcation of financial assets. This will allow a portion of any embedded derivative (i.e. the host) to receive the AC or FVOCI treatment which properly reflects how most entities manage that component of the instrument. This would prevent relatively insignificant features of certain embedded derivatives from causing the entire instrument to be classified as fair value through net income ("FVNI").

We note that the proposed ASU limits use of the fair value option (the option to classify items at FVNI) except in certain limited circumstances. Manulife recommends that the fair value option also be permitted for all instruments whenever an accounting mismatch is eliminated or significantly reduced. We believe that a model that reduces or eliminates accounting mismatches provides better information to investors and would provide for greater convergence with the IASB proposals.

Effective date of proposal

Manulife strongly believes that the effective date of the proposed ASU on recognition and measurement should be aligned with the effective dates of the projects on insurance contracts and impairment 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.

Furthermore, we believe the time between issuance and effective date should allow for an adequate and well planned and executed implementation. For a implementation of multiple major standards a full three years would be required to interpret the standards, determine changes required (including system and operational changes, changes in required information, and development of new processes and controls), implement the changes and perform test runs, and to develop the new required disclosures.

Yours Sincerely,

A handwritten signature in cursive script that reads "Lynda Sullivan".

Lynda Sullivan, CA
Executive Vice President & Controller

cc:

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