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

Re: Proposed Accounting Standards Update (ASU), Financial Instruments – Recognition & Measurement (Subtopic 825-10)

Dear Ms. Seidman:

Prudential Financial Inc. (the “Company” or “we”) appreciates the opportunity to comment on the above referenced proposed Accounting Standards Update (“ASU”). The Company is a financial services leader with approximately \$1 trillion of assets under management at March 31, 2013 and has operations in the United States, Asia, Europe and Latin America.

We maintain diversified investment portfolios to support our liabilities to customers in our insurance companies, as well to support our other general liabilities. Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities and other invested assets totaling more than \$400 billion at March 31, 2013. Accordingly, the Company is very interested in the FASB’s recognition and measurement project, as well as its relationship to the IASB’s corresponding project and other FASB projects.

Our vision of a global recognition and measurement standard remains focused on the following three important principles: 1) financial statements should be relevant to their users and enhance comparability among issuers; 2) financial results should correspond to the economics of the business and how business activity is managed; and 3) any movement to a new recognition and measurement standard should be cost effective when weighed against the benefits to be derived by the user communities. With respect to this second principle, the Company believes that there should be a strong linkage to fulfilling our insurance obligations and the corresponding investments we hold to fulfill such obligations.

Overall, the Company is supportive of the FASB’s and the IASB’s goal of achieving a converged standard for recognizing and measuring financial instruments and believes that this proposed standard represents a substantive improvement from prior exposure drafts. For the reasons stated herein, we strongly support the Board’s decision to address significant deficiencies in current guidance relating to (i) own credit under the fair value option for financial liabilities and (ii) non-recognition in net income of foreign currency (“FX”) transaction gains and losses pertaining to

foreign (non-functional) currency denominated debt investments measured at fair value through other comprehensive income (“OCI”).

However, given the significant concerns that we have with certain aspects of the current proposal, we feel compelled to file this comment letter.

Linkage to Insurance Contracts Standard

Given the fact that the guidance under the proposed ASU may, pending the outcome of the proposed insurance contracts standard, result in asymmetry between how our assets and liabilities are reported, the Company requests that the Board consider our proposed targeted suggestions, discussed below, which we believe will address these concerns.

We have significant insurance liabilities and, as such, feel it is imperative that any changes with respect to financial instruments be done in the context of the insurance contracts project. It is, therefore, of utmost importance to us that the Board ensures that a final standard enables us to match the recognition and measurement principles of our assets and our liabilities. Accordingly, we recommend that the Board aligns the deliberations, implementation and transition guidance for the ASU to correspond with that of the insurance contracts standard. This alignment will avoid confusion on the part of users given that asset-liability matching is ingrained in our business model. We also encourage the Board to ensure coordination between the staff working on these two important projects.

Transaction Gains and Losses on Foreign-Currency-Denominated Assets and Liabilities

We strongly support the proposed guidance for including FX transaction gains and losses on foreign denominated assets in net income as we believe it resolves a significant deficiency in existing GAAP. We think that the Board is in agreement since the “Basis for Conclusions” section of the ASU (BC294 and BC295) states that most auditors, preparers and users of financial statements understand that the inclusion of gains and losses in net income addresses existing inconsistencies and deficiencies in current U.S. GAAP. For this reason we recommend that, similar to own credit, early adoption be allowed for this portion of the guidance.

While the Company agrees that the FX transaction gains and losses should impact earnings, we do not support the Board’s requirement to separate the components of the total change in the fair value of financial instruments using a fair-value-based method applied consistently from period to period for each type of currency. Rather, the Company believes that the method used to determine the FX transaction gains and losses on the assets, whether based on fair value or amortized cost, should correspond to the method used on the corresponding liabilities. We also note that this approach would align with the methodology proposed by the IASB and further promote convergence.

Solely Payments of Principal and Interest (“SPPI”) Criteria

While we support certain provisions of the ASU, we do not support the SPPI criteria (“SPPI Test”). We believe that the Board’s primary intent in formulating the SPPI Test was to require fair value – net income classification for instruments containing embedded derivatives requiring bifurcation. Regarding the accounting for embedded derivatives, we feel that this topic is adequately addressed by current GAAP (Topic 815) and is well understood by preparers and users of financial statements. Many of the requirements of the SPPI model are redundant with existing GAAP.

For example, Subtopic 815-15-25-11 already mandates that holders of interests in securitized financial assets determine whether their interests are freestanding derivatives, or whether they contain embedded derivatives requiring bifurcation and separate accounting from that of the host contract. Furthermore, with regard to “look through”, Subtopic 815-15-25-12-13 states that this determination should be “based on an analysis of the contractual terms of the interest . . . which requires understanding of the nature and amount of assets, liabilities, and other financial instruments that compose the entire securitization transaction,” and requires the holder of the interest to “obtain sufficient information about the payoff structure and the payment priority of the interest to determine whether an embedded derivative exists.” In order to accomplish this, holders not only have to analyze their investments, but also assess the significant characteristics of the instruments in the underlying pool.

One difference with the proposed guidance is that it requires the investor to evaluate whether there is disproportionate credit risk between the Beneficial Interest (“BI”) tranche and the underlying collateral pool. The requirement only applies to BIs which may result in a different classification and measurement for similar financial assets (i.e. subordinate debt). The Company does not believe that credit should be a factor in determining the recognition and measurement of a financial asset and, therefore, should not be included in a proposed standard. In our opinion, existing GAAP guidance on impairment and the Board’s proposed guidance on credit losses already address these considerations.

Further, the application of the SPPI test may result in classification and measurement that is not consistent with our business model (or our insurance liabilities). For example, the SPPI test may result in the classification of a lower rated tranche of a securitization as fair value net income, while our business model is to hold the investment to support insurance liabilities. As mentioned previously, the pending insurance standard would require remeasurement of those liabilities through OCI.

We also note that under the proposed model, failure to identify an immaterial embedded derivative could have a significant financial statement impact. This will cause companies to choose between expensive and low value added processes or the potential risk of restatement.

For all of these reasons, the Company recommends that that the Board eliminates the SPPI Test and retains existing guidance requiring reporting entities to determine whether their investments have an embedded derivative requiring bifurcation under Topic 815. This approach would be cost effective since it would not require an extensive implementation exercise while at the same time would preserve what we believe to be the Board’s intent. Under this approach, entities would separately account for any material embedded derivatives requiring bifurcation from that of the host contract, and recognize them at fair value through net income. After bifurcating material embedded derivatives, reporting entities would then apply the business model test to the host contract.

Fair Value Election

We believe that a significant portion of our investment portfolio may, in accordance with the precepts of the ASU, be recognized at amortized cost. These assets include privately-placed fixed maturity securities and commercial mortgage loans. In contrast, we expect that our corresponding insurance liabilities under the proposed insurance contracts guidance will be remeasured through OCI. Furthermore, certain liabilities associated with our experience rated contracts are effectively remeasured through net income (because they reflect the investment results of the assets supporting the insurance contracts).

Several years ago at the inception of the financial instruments project, the Board expressed its intent to move financial statement reporting toward a full fair value model. While constituent feedback caused the Board to acknowledge that fair value is not appropriate under all circumstances, the Company believes that reporting entities should be permitted to make a fair value election in instances where: 1) market information is readily available or obtainable, and 2) when considered in conjunction with other factors, makes financial statements more relevant and comparable for users, including to provide for consistent treatment on assets and liabilities. Finally, with regard to the Board's stated intent to converge U.S. accounting standards with international accounting standards, it is worth noting that the IASB acknowledges the need for a fair value election to match the recognition principles for assets and their corresponding liabilities. The IASB has provided for an irrevocable election, upon initial recognition, for financial assets measured at amortized cost to present in OCI subsequent changes in fair value, if "such designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch')".

As a result, the Company recommends that the Board revise the proposal to permit reporting entities a fair value option for assets that otherwise would be reported at amortized cost. We believe that this option should provide the ability to elect fair value either through net income or through OCI.

Equity Method Investments and Non-Marketable Equities

With regard to equity method accounting, the ASU requires that reporting entities recognize at fair value through net income investments "held for sale." With respect investments in private equity funds with defined exit strategies, the Company is concerned that application of the proposed guidance will eliminate the possibility of applying the equity method to these investments. We have concerns regarding the operability of this since the net asset values ("NAVs") that we use to assess fair value in accordance with Subtopic 820-10-35-59 are often not produced by fund managers contemporaneous to the investors' preparation of financial statements. We therefore recommend, that the Board either provide a practical expedient to address this issue or require assessment of "intent to sell" only at the level of the direct holding.

Furthermore, the ASU provides a practicability exception for equities that do not have a readily determinable fair value. The practicability exception, however, is not available for entities applying the NAV practical expedient in accordance with Subtopic 820-10-35-59 in determining the fair value of certain limited partnership investments, thus requiring that these investments be recognized at fair value through net income. As discussed above, the financial statements of private equity funds are often produced on a significant lag and this precludes an investor from recognizing these investments at fair value on a contemporaneous basis with the production of the financial statements. As a result, for non-marketable equities, we recommend that the Board expand the practicability exception to allow for the use of lagged fair value information.

Transition

As mentioned above, we recommend that early adoption be permitted for recording FX transaction gains and losses in Net Income (FV-OCI assets). Similar to own credit, this would address a significant deficiency in current GAAP. However, in the event of delays in finalizing this ASU, we suggest that the EITF immediately and separately address these two narrowly-focused, yet important issues. We feel strongly that these proposed changes will improve consistency and increase the matching of accounting for assets and liabilities.

Overall, we realize that the impact of this standard will be widespread affecting most reporting entities regardless of size, industry and whether private or public. In addition, the requirements to evaluate all financial instruments to determine recognition and measurement will be in many cases both complex and operationally time consuming. Therefore, we request that the Board provide sufficient time for reporting entities to assess the new requirements, make operational changes and technological enhancements as necessary and determine the reporting and disclosure impact. We recommend that the transition period be no shorter than three years and that it should not become effective before the insurance contracts standard.

We appreciate the opportunity to comment on the Recognition and Measurement exposure draft. We hope you find our comments informative and useful. Should you have any questions or desire further clarification on any of the matters discussed in this letter, please contact me at (973) 802-6309.

Sincerely,



Peter B. Sayre
Principal Accounting Officer