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Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board (FASB)
401 Merritt 7
PO Box 5116
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May 15, 2013

Re: File Reference No. 2013-220

Dear Ms. Cospers:

MetLife, Inc. (MetLife) is pleased to comment on the FASB's Exposure Draft, *Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825-10)*, (the Exposure Draft). MetLife is a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers in over 50 countries.

We agree with the Board's objective to provide financial statement users with more decision-useful information about an entity's involvement in financial instruments while reducing complexity in accounting for such instruments. We believe an additional objective of the project should include reducing mismatches between the accounting for an entity's financial assets and financial liabilities. Specifically for insurance companies, we believe the Board should continue to consider this project in conjunction with its insurance contracts and credit loss projects in order to facilitate the reduction in accounting mismatches between the financial assets and insurance liabilities that are backed by those financial assets. We also encourage the FASB to work with the International Accounting Standards Board (IASB) in the interest of a converged standard for financial instrument classification and measurement.

With respect to the proposed amendments in the Exposure Draft, while we believe it is generally an improvement over current GAAP, we believe certain aspects could be improved. We are concerned that the application of the "solely principal and interest" (SPPI) criteria, particularly the special rules relating to beneficial interests in securitized financial assets, since such rules will result in a significant amount of these financial assets being accounted for at fair value with all changes in fair value recognized in net income (FV-NI). This may occur even though the business model for these assets could support a fair value measurement with qualifying changes in fair value recognized in other comprehensive income (FV-OCI) classification. FV-NI classification of such financial assets would create significant asset-liability mismatches for

insurance companies that are significant investors in this asset class. We believe the SPPI criteria would be best applied to “screen” financial assets measured at amortized cost, with less stringent criteria applied to FV-OCI given such financial assets are recorded on an entity’s balance sheet at fair value.

Our other significant concerns with the Exposure Draft, as discussed further in our attached responses to the Questions for Respondents, include:

- The presence of standard “make whole” or other prepayment provisions in many debt instruments could have unintended consequences with respect to the SPPI assessment, particularly for debt securities purchased at a significant discount to par. This could result in FV-NI classification regardless of the business model, potentially creating significant asset-liability accounting mismatches in the financial statements.
- The limitations on the use of the Fair Value Option Election (FVO) could result in operational burdens in the accounting for consolidated variable interest entities (VIEs), such as securitization entities.
- The presentation requirements for “own credit” risk for hybrid financial liabilities that qualify for the FVO should be expanded to include bifurcated embedded derivative liabilities accounted for at fair value.

We appreciate the opportunity to comment on the Exposure Draft. If you have any questions regarding the contents of this letter, please do not hesitate to contact me.

Sincerely,



Peter M. Carlson

cc: John C. R. Hele
Executive Vice President and
Chief Financial Officer

Responses to Exposure Draft Questions for Financial Statement Preparers

Scope

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?

We agree with the scope of financial instruments that are included in the Exposure Draft.

Question 2: Do you agree with the industry-specific specialized guidance scope exceptions in paragraph 825-10-15-9? If not, why? What would you propose instead?

We are not opposed to the broker-dealer, investment company, agricultural, and depository and lending entity scope exceptions in Paragraph 825-10-15-9.

Recognition

Question 4: Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?

For financial assets that are held and managed within a business model with the objective of collecting contractual cash flows, we support the contractual cash flow characteristics assessment and believe it is appropriately conveyed in the Exposure Draft. Given that these financial assets would be subsequently measured at amortized cost as opposed to fair value, we believe these financial assets should meet the SPPI criteria.

However, we believe the SPPI principle is overly restrictive for FV-OCI financial assets. We are concerned that applying this assessment to certain asset classes, such as beneficial interests in securitized financial assets or debt securities purchased at a discount to par solely due to increases in interest rates since their initial issuance, would result in a significant number of instruments being classified as FV-NI financial assets where the business model assessment would clearly support FV-OCI. We do not believe financial statement users would benefit from a significant number of financial assets classified as FV-NI, when such assets meet a business model of holding to collect contractual cash flows or selling to manage interest rate or credit risks.

Additionally, as further discussed in our response to Question No. 7, we do not believe that industry standard features in certain loans or debt securities that can result in modifications to cash flows, such as industry standard prepayment options, extension options, or contingent fees should preclude an instrument from meeting the SPPI criteria. We are also specifically concerned with make whole provisions and whether they represent “reasonable additional compensation” as discussed in Paragraph 825-10-55-21 of the Exposure Draft.

We believe the Exposure Draft could be improved such that, if a financial asset’s cash flows are “primarily” payments of principal and interest, the asset could appropriately be classified at FV-OCI to the extent the business model for the financial asset meets the criteria in Paragraph 825-10-25-25(b). We also believe a “primarily” criteria should be applied to beneficial interests in securitized financial assets, as opposed to the look-through approach (see our response to

Question No. 9). We believe operational criteria could be developed for FV-OCI financial assets that would not overly complicate the application of the contractual cash flow characteristics assessment.

Question 5: The proposed amendments define *principal* as the amount transferred by the holder at initial recognition. Should the definition of *principal* be expanded to include repayment of the principal amount at maturity or other settlement? If so, what instruments would fail (or pass) the contractual cash flow characteristics criterion as a result of this change?

As discussed in our response to Question No. 4, we believe a FV-OCI classification is appropriate if a financial asset's cash flows are "primarily" payments of principal and interest. We recommend expanding the definition of principal to include repayment of principal at maturity or upon a prepayment. This would allow certain instruments, such as debt securities purchased at a discount to par solely due to increases in interest rates since their initial issuance, to not be precluded from FV-OCI measurement if the business model criteria are met.

Question 6: Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?

In general, we believe the Exposure Draft contains sufficient application guidance. However, we recommend certain guidance be amended to allow for a more qualitative cash flow characteristics assessment to eliminate the potential for unintended consequences.

Question 7: Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?

We note that certain features discussed in Paragraphs 825-10-55-17 through 55-20 could be embedded derivatives that may require bifurcation under current GAAP. To the extent the FASB eliminates embedded derivative accounting for financial assets, we agree that such features would likely result in the instrument containing cash flows that would not be SPPI as discussed in the Exposure Draft.

However, we believe that prepayment options present in most non-residential mortgage loans and make whole provisions present in many debt instruments, which may be customary and consistent with the market and designed to discourage prepayment, should not result in failure of the SPPI cash flow characteristics assessment. For entities with a business model of collecting contractual cash flows or selling the financial asset to manage risk, the receipt of prepayment fees or other such amounts is generally not a significant source of income. We also note that these features are generally not bifurcated embedded derivatives under current GAAP as they are "clearly and closely related" to the debt instrument. We believe that the "benchmark instrument" should be one that contains such standard features in order to focus the evaluation on substantive provisions that are added to contracts to modify cash flows beyond such standard terms.

To the extent contractual cash flows are not significantly different from benchmark cash flows, we would support these instruments qualifying for FV-OCI classification as discussed in our response to Question No. 4.

Question 8: Do the proposed amendments contain sufficient application guidance in paragraphs 825-10-55-17 through 55-20 on assessing a modified economic relationship? If not, why?

Based on our responses to Questions No. 4 through No. 7, we believe additional guidance is necessary.

Question 9: For beneficial interests in securitized financial assets, the proposed amendments would require an entity to look through to the underlying pool of instruments in determining whether the tranche contains payments of solely principal and interest. Do you agree with this look-through approach? If not, why? What do you propose instead?

We do not agree with the proposed look-through approach for beneficial interests in securitized financial assets and believe it would result in a significant number of financial assets being recorded at FV-NI even though the entity's business model for holding such assets may clearly support FV-OCI classification. Insurance companies are significant investors in beneficial interests in securitized financial assets, which contribute to a diversified portfolio of assets backing mid to longer term policyholder obligations. FV-NI accounting for these instruments is expected to create a significant accounting mismatch, as the effect of changes in interest rates on the measurement of the corresponding insurance liabilities is expected to be reported in accumulated other comprehensive income (AOCI) in the current period under the proposed insurance contracts accounting standard.

We do not believe the look-through approach is operational or, at the very least, would be burdensome for preparers and auditors. The approach would appear to require a very detailed analysis of the structure, including a detailed analysis of underlying loan agreements and features, which may be above and beyond what is necessary to properly evaluate its underlying economics. Additionally, the information necessary to perform this assessment may not be available or may not be available on a timely enough basis.

Additionally, the look-through approach would likely result in different outcomes for securitized financial assets as compared to subordinated debt instruments with similar terms and credit ratings. The classification of subordinated debt instruments, such as corporate bonds, would likely meet the SPPI assessment criteria and be eligible for FV-OCI classification in the proposed model as look-through is not required. We believe that the economic terms of the instrument itself should be examined regardless of the nature of the issuing entity. We do not believe that subordination through tranching, or credit risk more generally, should be a driver of classification for beneficial interests in securitized financial assets.

As discussed in our response to Question No. 4, we believe a FV-OCI classification is appropriate if a financial asset's cash flows are "primarily" payments of principal and interest, which would encompass most beneficial interests and provide a closer link between the business model and classification attribute. We believe such an approach could be made operational.

Question 10: Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?

We believe the Exposure Draft conveys the business model principle but have concerns regarding its application.

We are concerned with a potential mismatch between the measurement attributes for certain of our financial assets and our insurance liabilities. While still in deliberations, the insurance contracts project would result in most changes in the measurement of insurance liabilities due to changes in interest rates being presented in AOCI. We expect that this proposed presentation for our insurance liabilities would be in alignment with the proposed presentation for our debt securities backing such liabilities, given our business model of holding debt securities to collect contractual cash flows or selling debt securities as part of our risk management processes. However, we are concerned that any proposed business model assessment for financial assets, no matter how robust, will result in accounting mismatches to some degree between financial assets and liabilities.

We believe these concerns could be addressed through a FV-OCI option for those financial assets that would otherwise be classified at amortized cost. We do not believe that such an option would harm users of financial statements, noting that the proposed amendments in the Exposure Draft already have a FV-NI option for financial assets that would otherwise be classified at FV-OCI. This is also consistent with the general view that fair value is a more representative measurement attribute than amortized cost. While we understand concerns that options limit comparability, we believe the introduction of the business model concept will reduce comparability. A FV-OCI option would likely be limited to situations where an accounting mismatch would occur.

Alternatively, industry-specific guidance could be further considered to alleviate this accounting mismatch.

Question 11: Do the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the proposed guidance provided to describe those business models? If not, why?

We do have concerns with the application guidance regarding the business model associated with amortized cost classification. We are concerned that classification at amortized cost will be limited to financial assets that are expected to be held to maturity, which may not be practical. Effective risk management may result in sales of financial assets to reduce concentrations of credit risk, or sales in advance of an expected significant decline in creditworthiness. The “hold to collect” business model should not be so restrictive such that sales are effectively prohibited. It should permit some level of sales or the classification will generally not be utilized similar to limited use of the “held to maturity” classification for debt securities under current GAAP.

Question 12: Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?

We do not support an explicit tainting notion for the classification and measurement model. While we recognize that questions may arise about the level of sales that could call into question an entity's "held to collect" assertion, we believe that a classification and measurement model for financial instruments should be based on principles and professional judgment, not bright-line tests.

Question 13: The proposed amendments would require loan commitments, a revolving line of credit, or a commercial letter of credit (the potential creditor) to be measured on the

basis of the likelihood of exercise of the commitment and the classification of the underlying loan that would be made upon exercise of the commitment. Do you agree with the proposed classification of loan commitments? If not, why? What would you propose instead?

We are not opposed to the proposed amendments in the Exposure Draft regarding the classification and measurement of loan commitments.

Initial Measurement

Question 14: Do you agree with the initial measurement principles for financial instruments? If not, why?

We agree with the initial measurement principles for financial instruments as outlined in the Exposure Draft.

Subsequent Measurement

Question 16: Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?

We generally agree with the subsequent measurement attribute of amortized cost for financial liabilities unless certain exceptions are met. See our response to Question No. 17 below regarding consolidated VIEs.

Question 17: The proposed amendments would require a nonrecourse financial liability that is settled with only the cash flows from the related financial assets (see paragraph 825-10-35-11) to be measured on the same basis as those assets. Do you agree with the proposed amendments? If not, why? What would you propose instead?

We agree with the attempts to minimize a balance sheet or income statement mismatch for such assets and liabilities but have concerns with the application of these proposed amendments to consolidated VIEs. For consolidated securitization VIEs, the business model principle may require financial assets be measured at amortized cost given the typical objective of a securitization entity is to collect contractual cash flows. This would also result in the financial liabilities related to the consolidated securitization entity being measured at amortized cost. However, entities required to consolidate securitization VIEs have often elected the fair value option for both the VIE's assets and liabilities for operational reasons and to provide the most decision-useful information to users. For example, the consolidating entity may not have access to information to determine asset impairments on a timely basis, such that accounting for the VIE's financial assets at amortized cost or FV-OCI is less operational. These concerns would be amplified by the proposed expected loss approach for amortized cost and FV-OCI financial assets.

We recommend the Board consider changes to the proposed guidance that would enable entities required to consolidate securitization VIEs and other similar entities to continue a FVO utilizing observable market inputs in determining the fair value of assets and liabilities and avoiding an accounting mismatch.

Question 18: The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain,

until the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?

We agree with the proposed amendments to continue to measure financial assets identified for sale at amortized cost less impairment. However, we believe additional clarification in determining the amount of impairment to be recognized for groups of assets to be sold would be helpful to preparers and auditors.

Question 19: The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?

We agree with the proposed amendments for measuring equity investments without readily determinable fair values.

Question 20: Should an entity evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income separately from the other deferred tax assets of the entity (rather than combined and analyzed together)? If not, why?

Current GAAP allows an entity to evaluate the need for a valuation allowance on deferred tax assets related to unrealized losses on available for sale debt instruments by considering the reversal of the unrealized losses on those securities and/or future realized gains on other available for sale debt securities. Additionally, under current practice, an entity is not precluded from performing this evaluation in combination with other deferred tax assets, thereby looking to other sources of taxable income or tax strategies on an overall basis. As such, we believe that the guidance should indicate that it is acceptable to determine realization of deferred tax assets from FV-OCI debt instruments either separately or in combination with other deferred tax assets if this would otherwise reflect the application of tax law than if they were evaluated separately.

We are also concerned that there may be unintended consequences to this decision, given the expectation that many debt instruments could end up being classified as FV-NI from the CPPI test or the fair value option but are not actively traded. Decreases in fair value from the initial measurement date will give rise to deferred tax assets, no differently than if they were classified as FV-OCI. We believe the standard needs to state that deferred tax assets on these FV-NI debt instruments are to be afforded the same treatment as FV-OCI debt instruments and, therefore, be allowed, but not required, to be evaluated separately from other deferred tax assets of the entity.

Question 21: Under the amendments in this proposed Update, hybrid financial assets would not be required to be analyzed for bifurcation under Subtopic 815-15 and would be assessed in their entirety on the basis of the proposed classification requirements. In contrast, hybrid financial liabilities would be assessed for bifurcation and separate accounting under Subtopic 815-15, and the financial liability host contract would be subject to the proposed amendments. Do you agree with this proposal? If not, why? What would you propose instead?

We understand the rationale to eliminate the bifurcation requirements for hybrid financial assets in an effort to reduce complexity. However, we believe the introduction of the SPPI principle as currently proposed will introduce new complexities. If the SPPI principle is changed to focus on

“primarily” principal and interest, or otherwise modified or deleted, we believe the bifurcation requirements for financial assets which are generally well-understood by preparers and users may need to be retained.

We also agree with the proposed amendments that require an assessment of hybrid financial liabilities for bifurcation, as the alternative would result in more liabilities recognized at fair value as discussed in Paragraph BC202 of the Exposure Draft.

Question 22: The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?

We agree with the proposed amendments relating to the reclassification of financial assets when a change in business model occurs.

Subsequent Measurement

Question 26: The proposed amendments would require an entity to separately recognize in net income changes in fair value attributable to foreign currency gain or loss on foreign-currency-denominated debt securities measured at fair value through other comprehensive income (see paragraphs 825-10-45-14 through 45-15). Is the proposed fair-value-based method provided for computing the foreign currency gain or loss operable? If not, why? What would you propose instead?

We agree with the proposed amendments that would require entities to separately recognize in net income changes in fair value attributable to foreign currency gains and losses on foreign-currency-denominated debt securities measured at FV-OCI. While the proposed fair-value-based method is operable, we believe the cost-based method required to be used by investment companies under Subtopic 946-830 would also be appropriate.

Disclosures

Question 29: Do you agree with the proposed disclosure requirements? If not, what disclosure requirement would you change and why?

We agree with the proposed disclosure requirements and believe they are operational.

Transition and Open Effective Date Information

Question 30: Should an entity be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option under the proposed requirements? If not, why?

We agree that entities should be permitted to early adopt the proposed presentation requirements for nonperformance risk for hybrid financial liabilities that would qualify for the FVO. However, we believe additional clarification regarding the scope of these proposed presentation requirements would be helpful.

Insurance companies are required to account for certain guaranteed minimum benefits within variable annuity products as bifurcated embedded derivatives under Subtopic 815-15. These guaranteed minimum benefits can include guaranteed minimum withdrawal benefits, guaranteed minimum accumulation benefits, and certain guaranteed minimum income benefits. Under current GAAP, any changes in the nonperformance risk adjustment are recorded in earnings. Consistent with the discussion in Paragraphs BC285-BC286 of the Exposure Draft, insurance companies have no ability to monetize any gains on these embedded derivatives resulting from changes in their own credit standing; this unhedgeable risk has been a significant driver of net income volatility. In fact, there is less ability to monetize gains relating to nonperformance risk on these guaranteed minimum benefit products as compared to other financial liabilities, which hypothetically could be repurchased in the market.

For consistency, we believe any changes in nonperformance risk on these embedded derivative liabilities should be presented within other comprehensive income consistent with hybrid financial liabilities that would qualify for the FVO. Therefore, we believe the Board should consider expanding this presentation guidance to include all financial liabilities reported at FV-NI, as well as embedded derivative liabilities.

Question 31: Should the effective date be the same for both public entities and nonpublic entities?

Given the scope and nature of the changes in the Exposure Draft, we believe a deferral period of up to one year would be appropriate for nonpublic entities.

Question 32: How much time is needed to implement the proposed guidance?

We believe any consideration of time needed to implement this Exposure Draft needs to also consider any changes resulting from the financial instruments-credit losses project. Our recommendation is that the effective date of this Exposure Draft and that project be aligned. We note that the effective date of this Exposure Draft will likely occur before that of the proposed insurance contracts standard. We support the Board's tentative decision that provides reporting entities with the option to adopt certain aspects of this Exposure Draft retrospectively in conjunction with the retrospective adoption of the proposed insurance contracts standard.

Question 33: Are the transition provisions in this proposed Update operable? If not, why?

We believe the transition provisions are operable.

Equity Method Accounting

Question 34: The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments – Equity Method and Joint Ventures – Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?

We believe the indicators are operable but believe they could capture significantly more equity method investments than the Board may have intended.

Insurance entities invest in various investments accounted for under the equity method, which do not qualify as investment companies. Such investments include real estate partnerships, real

estate joint ventures, and low-income housing tax credit partnerships. These entities often have a limited life per their governing legal documents as well as exit strategies for their investments, both of which are known by the investors in these entities at initial recognition such that it could be argued the held-for-sale criterion are met. However, it is unclear if references to “the investor” in Paragraphs 323-10-15-20 through 15-21 of the Exposure Draft refer to an investee in one of these entities, or the entity itself.

We believe it would be misleading to users of our financial statements to classify these investments as held-for-sale when there is no intention of selling these investments in the near-term. Additional guidance would be helpful to preparers and auditors in determining whether the held-for-sale criterion are met in these and other situations.

Question 35: The proposed amendments would change the current two-step impairment model for equity method investments to a one-step impairment model for all equity investments. Do you agree with the proposed one-step equity impairment model? If not, why? What would you propose instead?

We are not opposed to the proposed amendments that would change to a one-step impairment model for all equity method investments.

Question 36: Do you agree that the current portfolio-wide option for not-for-profit entities, other than health care entities, to account for their equity method investments at fair value should be retained? If not, why? Should that option also be made available to not-for-profit health care entities that are within the scope of Topic 954, Health Care Entities?

We are not opposed to a portfolio-wide option for not-for-profit entities, including not-for-profit health care entities within the scope of Topic 954.

Nonfinancial Hybrid Instruments

Question 37: The proposed amendments would eliminate the fair value option for hybrid nonfinancial instruments in current U.S. GAAP and would provide a new fair value option for hybrid nonfinancial liabilities. For a hybrid nonfinancial liability, an entity would apply the bifurcation and separate accounting requirements in Subtopic 815-15 and account for the embedded derivative in accordance with Topic 815. The financial liability host that results from separation of the nonfinancial embedded derivative would be subject to the proposed amendments. However, an entity would be permitted to initially and subsequently measure the entire hybrid nonfinancial liability at fair value (with changes in fair value recognized in net income) if after applying Subtopic 815-15 the entity determines that an embedded derivative that requires bifurcation and separate accounting exists. In contrast, for a hybrid nonfinancial asset the proposed amendments would require the hybrid contract to be measured at fair value (with changes in fair value recognized in net income) if the hybrid nonfinancial asset contains an embedded derivative that would have required bifurcation and separate accounting under Subtopic 815-15. Do you agree with the proposed amendments? If not, why? What would you propose instead?

We agree with the proposed amendments with respect to nonfinancial hybrid instruments.