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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 31, 2013

Re: File Reference No. 2012-260

Dear Ms. Cospers:

MetLife, Inc. (MetLife) is pleased to comment on the FASB's Exposure Draft, *Financial Instruments – Credit Losses (Topic 825-15)*, (the Exposure Draft). MetLife is a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers in over 50 countries.

MetLife continues to believe users and preparers would benefit from a single high quality converged standard for financial instruments. We commend the FASB and IASB ("the Boards") for their attempts to reach a more converged credit losses standard for financial instruments and we recommend the Boards continue to pursue convergence during re-deliberations.

With respect to the proposed amendments in the Exposure Draft, we agree with the overall objective to provide financial statement users with more decision-useful information about the expected credit losses on financial assets held by reporting entities. We support an expected loss model that requires consideration of both historical loss estimates and reasonable and supportable forecasts. However, we have several significant concerns related to how those objectives have been reflected in the proposed ASU that we believe should be addressed before the guidance is finalized. As discussed further in our attached responses to the Questions for Respondents, our concerns include:

- Scope – We do not agree with the inclusion of policy loans, reinsurance receivables and reinsurance recoverables in the scope of this project, given the overlap and interaction with the ongoing Insurance Contracts project. Additionally, we believe the current other-than-temporarily-impaired (OTTI) model for debt securities is functional and well-understood by users. However, we recognize the Board's objective for including debt securities in the proposed model in an effort to reduce complexity.

- Recognition and measurement – We believe the requirement to develop multiple scenarios and recognize an expected credit loss on certain instruments, such as high quality debt instruments or highly-collateralized mortgage loans, is unnecessary and will result in additional costs and operational complexities. We believe the expected credit loss model should focus on those financial assets for which expected credit losses are more than insignificant. Additionally, we believe the criteria to apply the proposed practical expedient should be amended to only require either (1) the fair value of the financial asset to be greater than or equal to amortized cost or (2) an expectation of insignificant credit losses, as opposed to both criteria having to be met as discussed in the Exposure Draft.
- Purchased credit-impaired assets – We are concerned that the expanded definition of purchased credit-impaired assets in the proposed guidance could result in additional operational complexities in determining whether or not purchased assets are credit-impaired at acquisition and in attributing the discount to credit and other factors. In addition, we have concerns with regard to the accounting for purchased credit-impaired assets upon transition and the interaction with the proposed changes to income recognition, specifically the nonaccrual guidance.
- Effective date – We believe at least 18-24 months from the date of a final standard would be sufficient to implement the proposed guidance. Additionally, we strongly encourage the Board to align the effective date of this proposed guidance with the effective date of the classification and measurement project, given the interaction of these two proposed standards and their similar cumulative effect transition provisions.

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 assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

We generally agree with the scope of financial assets that are included in the Exposure Draft but have concerns with the inclusion of policy loans, reinsurance receivables and reinsurance recoverables to the extent those balances would be incorporated into the measurement and recognition guidance in the proposed Insurance Contracts project. Unless the effective date of this project is aligned with the Insurance Contracts project, financial statement users and preparers would not benefit from two accounting changes within a short period of time. As such, we believe a better alternative would involve removing such balances from the scope of this project, and addressing within the existing insurance contracts project consistent with the IASB's tentative decision.

With respect to debt securities, most of which we expect to classify at fair value with qualifying changes in fair value recognized in other comprehensive income ("FV-OCI") under the Board's proposed classification and measurement model, we believe that, for these securities, the OTTI model in current GAAP is functioning and is well-understood by users of financial statements. However, we recognize the Board's objective for the inclusion of debt securities in the scope of this Exposure Draft in an effort to simplify and reduce the number of impairment models. If the Board decides to move forward with the inclusion of debt securities in the scope of this project, we do believe certain improvements could be made to the proposed credit loss model with respect to FV-OCI instruments, including expanding the practical expedient as further discussed in our response to Question No. 14.

Recognition and Measurement

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

We do not foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on past events, current conditions, and reasonable and supportable forecasts, as these activities are consistent with our current risk management practices.

Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

Based on our current practices, we believe we have sufficient access to historical loss data and rating migration techniques for our debt security and a significant portion of our mortgage loan portfolios that can be utilized in implementing the provisions outlined in the Exposure Draft. We could also consider and utilize certain third-party data from credit rating agencies and other vendors as part of our historical loss analysis.

We do have concerns regarding the completeness of available historical loss data for our agricultural mortgage loans and lease receivables. Given the bespoke nature of these transactions and the lack of publicly available information, additional data may need to be gathered and new processes developed with respect to these financial assets in order to determine expected losses in accordance with the Exposure Draft.

Question 11: The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

We do not foresee auditing concerns or constraints in having the estimate of expected credit losses reflect multiple scenarios, including one in which a credit loss results.

This requirement will result in additional operational complexity as these multiple scenarios will need to be developed and regularly updated for every financial asset in scope, even government securities and other instruments of high credit quality, to the extent they do not meet the criteria for the practical expedient. In addition, applying this requirement to mortgage loans that are highly-collateralized (for example, with initial loan-to-values of less than 70%) could yield non-intuitive answers since it would require the recognition of an expected credit loss at inception. If such loan deteriorates in quality and becomes collateral dependent, the level of expected credit losses could be significantly lower when the collateral exceeds the contractual amounts due.

Please refer to our response to Question No. 14 and the practical expedient for FV-OCI financial assets that have insignificant credit losses. In these instances, we do not believe users of financial statements will benefit from the recognition and presentation of insignificant expected credit losses, and as such these minimal benefits do not outweigh the costs.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

We do not foresee significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money.

Question 13: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

The scope of purchased credit-impaired financial assets as defined in the Exposure Draft differs from the scope under current GAAP in ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (formerly SOP 03-3). Given current GAAP requires both a deterioration of credit quality since origination and a probable expectation of not collecting contractual cash flows, we believe it has historically been clear whether or not a financial asset met the scope of ASC 310-30. This change in scope could result in additional operational complexities in determining whether or not an acquired financial asset falls within the scope of the proposed credit-impaired guidance.

We also foresee operability concerns in determining the discount embedded in the purchase price attributable to credit at the date of acquisition as opposed to other factors, particularly for beneficial interests in securitized financial assets.

While we recognize the Board's objective that purchased credit-impaired assets should follow the same approach as non-purchased-credit-impaired assets, we do not believe recording this discount as an allowance for expected credit losses upon issuance and throughout the instrument's life is the most representative recognition and measurement principle in this circumstance. Investors specifically purchase these assets for the yield embedded in the price paid relative to expected cash flows. In our view, the proposed changes to purchased credit-impaired assets do not represent an improvement over current GAAP and we suggest retaining current guidance in ASC 310-30.

Additionally, we foresee implementation issues relating to the interaction between purchased credit-impaired assets and the nonaccrual guidance in the Exposure Draft. We believe the proposed guidance could result in significantly more purchased credit-impaired assets being placed on non-accrual status than was intended. By definition, entities are not expecting to collect full (i.e. per stated terms at original issued date) principal and interest on purchased credit-impaired assets, which could automatically trigger these assets being placed on nonaccrual status at acquisition. We believe additional clarification is needed for the interaction of these two concepts. If the Board did not intend for "full principal and interest" to be synonymous with "principal and interest per stated terms at original issue date", then further clarification should be provided.

If the current ASC 310-30 model is not retained, we foresee significant operational complexities for purchased credit-impaired assets upon transition. It is unclear if entities would be required to determine the discount embedded in the purchase price for transactions that occurred several years prior, which may not be operational. In this case, additional clarification with respect to transition issues for purchased credit-impaired assets would be helpful to preparers and auditors.

Question 14: As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

We have operational concerns with the practical expedient and also believe the eligibility criteria to apply it requires improvement.

While we do not have significant operability concerns in determining whether an entity has met the practical expedient, we do have concerns with its application. The practical expedient fails to address situations where relatively small changes in fair value due to changes in market interest rates could result in FV-OCI financial assets meeting the expedient criteria in one reporting period and not meeting the criteria in a subsequent period, or vice versa. These situations would be expected to occur frequently, significantly diminishing the usefulness of the practical expedient, while introducing unnecessary income volatility.

Additionally, we do not believe the recognition of valuation allowances on FV-OCI assets is appropriate if the current fair value exceeds the amortized cost, (i.e. 100% of the amortized cost is hypothetically fully recoverable if the asset is sold), regardless of whether or not expected credit losses are insignificant. Unlike those assets classified at amortized cost where the assets are expected to be held and managed with the objective of collecting contractual cash flows, the

business model for FV-OCI assets includes an objective of selling the assets. The recognition of valuation allowances on FV-OCI assets in an unrealized gain position is not consistent with the business model objective for such assets. Further, the current incurred loss model for debt and equity securities does not require an other-than-temporary impairment assessment for securities whose current fair value exceeds amortized costs. To our knowledge, this facet of the current model has not been the subject of criticism or debate.

We also do not believe the recognition of a valuation allowance on individual FV-OCI financial assets with insignificant expected credit losses is appropriate, regardless if the FV-OCI financial asset's fair value is greater than its amortized cost basis, as users of financial statements will not benefit from the recognition and presentation of insignificant expected credit losses. The rationale for excluding these insignificant expected credit losses is further supported by the fact that the financial assets in question are measured at fair value on an entity's balance sheet.

We believe the Board could improve the relevance of credit loss information reported to users, while at the same time reducing the operating burden for preparers, by amending the practical expedient to require only one of the above criteria to qualify for its application. Eliminating the need to record a valuation allowance on financial assets where expected credit losses are insignificant at inception would reduce 'Day 1' losses upon the acquisition or origination of higher quality financial instruments.

Question 15: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

We believe the proposed amendments in the Exposure Draft could result in changes to current practice for insurance companies. Given already existing regulatory guidance for financial institutions with respect to nonaccrual status, we urge the Board to reconsider if these changes are necessary and if they represent an improvement over existing industry practices.

As discussed in our response to Question No. 13, we also have concerns with the interaction between purchased credit-impaired assets and changes to nonaccrual guidance that could, depending upon the interpretation of the proposed standard, immediately result in many of those assets being placed on nonaccrual status.

Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45-BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?

We believe the change to an expected credit loss model and a more timely recognition of credit losses obviates the need for a distinction between troubled debt restructurings and nontroubled debt restructurings.

Disclosures

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

We do not foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals. However, the new disclosure requirements for the roll forward of debt instruments classified at amortized cost and FV-OCI are extensive and may not necessarily provide financial statement users with additional useful insights that are not already met by existing disclosures. We do not believe this would be consistent with the primary objective of the disclosure framework project.

Implementation Guidance and Illustrations

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

As discussed in our responses to Questions Nos. 13 and 15, we believe additional implementation guidance for purchased credit-impaired assets are needed with respect to both the interaction with the nonaccrual guidance and upon transition.

Transition and Effective Date

Question 20: Do you agree with the transition provision in this proposed Update? If not, why?

We agree with the transition provisions. However, as discussed above in our response to Question No. 13, additional clarification would be helpful for holders of purchased credit-impaired assets.

Question 21: Do you agree that early adoption should not be permitted? If not, why?

We agree that early adoption should not be permitted for public entities.

Question 22: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

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

Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

Yes. As opposed to any transition provision that would necessitate determining valuation allowances at historical points in time, we believe a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is

effective is the most operable transition provision for credit losses. However, as noted in our response to Question 19, we believe additional implementation guidance for purchased credit-impaired assets are needed.

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

In our view, 18-24 months from the date of a final standard would be sufficient time to implement the proposed guidance. This time period is needed to enhance systems to accommodate valuation allowances on financial assets that previously did not required them, as well as developing an infrastructure that can determine multiple scenarios for financial assets to meet the requirements of the Exposure Draft.

Additionally, we strongly encourage the Board to align the effective date of this proposed guidance with the effective date of the classification and measurement proposed guidance, given the interaction of these two proposed standards and their similar cumulative effect transition provisions. We believe aligned effective dates at least 18-24 months from the date of final standards for these two projects would be sufficient.