

Submitted electronically

March 3, 2011

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: *Hedge Accounting* Exposure Draft

Genworth Financial appreciates the opportunity to comment on the International Accounting Standards Board (IASB or the Board) Exposure Draft, ED/2010/13 *Hedge Accounting* (the “ED”).

Genworth Financial, Inc. is a leading financial security company dedicated to providing insurance, wealth management, investment and financial solutions to more than 15 million customers, with a presence in more than 25 countries. We have significant hedging activities and would be significantly impacted by the ED.

We agree with the objective as stated in the ED to more closely align hedge accounting with an entity’s risk management strategies, enabling financial statements to more accurately reflect an entity’s hedging activities.

We generally support the proposed hedge accounting model but have concerns with respect to certain provisions of the ED as described below. Additionally, we urge the IASB to continue to work with the Financial Accounting Standards Board (“FASB”) in their re-deliberations of hedge accounting to ensure convergence is achieved.

Voluntary De-designation

We do not support the de-designation model as described in the ED due to the inability to voluntarily discontinue application of hedge accounting. While we support the aspects of the ED that link hedge accounting to risk management strategy, the ED does not clearly articulate how a change in risk management strategy would be determined for purposes of de-designation. A change in risk management strategy could be based on a strategy change related to a particular hedging instrument or based on an overall change in risk management strategy. To alleviate unintended interpretations of the risk management strategy definition, voluntary de-designation should be permitted. Allowing voluntary de-designation would simplify the application of determining whether a risk management strategy has changed when determining if de-designation is permitted. Voluntary de-designation could be accompanied with additional disclosures that describe why an entity chose to de-designate certain hedging relationships.

An entity may want to discontinue hedge accounting to reduce the operational costs/burden of applying hedge accounting but still retain the hedging instrument. Accordingly, the entity would need the ability to voluntarily de-designate to achieve this objective. Absent the ability to

voluntarily terminate hedge accounting, an entity may effectively be forced to i) terminate the hedging instrument, ii) change their risk management strategy, or iii) continue to incur costs to apply hedge accounting despite an entity's view that those costs do not outweigh the benefits. The ability for entities to voluntarily de-designate a hedging relationship is consistent with the voluntary nature of initially applying hedge accounting.

Hedge Effectiveness Criteria

We support both the IASB's and FASB's changes in their recent exposure drafts related to hedge effectiveness and favor the IASB criteria in the ED as a result of the hedge accounting objective being more closely tied to an entity's risk management strategies.

With respect to determining if a hedging relationship meets the objective of the hedge effectiveness assessment¹, we are concerned that the ED does not clearly indicate that the instrument utilized should not be considered when performing this assessment. The instrument utilized should be determined by an entity's risk management strategy—which may include consideration of several factors such as cost, availability of instrument, counterparty credit risk exposure, and operational risks in addition to minimizing ineffectiveness. An entity's determination of the most appropriate hedging instrument should not be impacted by an accounting requirement to utilize the instrument that would minimize ineffectiveness in order to achieve hedge accounting. We believe the intent of the requirement to minimize ineffectiveness relates to instances where there is basis risk between the hedging instrument and the hedged risk. Without clarification, preparers may incur additional costs each period to justify that the current hedging instrument minimizes ineffectiveness when compared to other hedging instruments that could be utilized. This added cost could force entities to utilize an instrument that they would not otherwise utilize in order to apply hedge accounting.

We recommend revising the final guidance to specifically state that the instrument utilized should not be considered in evaluating whether the instrument minimizes expected ineffectiveness.

Rebalancing

We support the concept of rebalancing described in the ED but would recommend changing the guidance to permit rather than require rebalancing.

Requiring rebalancing appears to contradict the objective of the ED to align hedge accounting with risk management strategies and would effectively result in requiring entities to rebalance the hedge accounting relationships even when the risk management strategy has not changed. Furthermore, if a hedging relationship were not rebalanced to minimize ineffectiveness, additional ineffectiveness would be recorded in profit and loss. Accordingly, there does not appear to be a need to require rebalancing (as the financial statements would reflect the ineffectiveness in the hedging relationship). A similar conclusion could also be made with respect to the criterion in the ED to minimize expected ineffectiveness, as this criterion is not needed since the financial statements would reflect any ineffectiveness.

The final guidance should be amended to permit, rather than require, rebalancing. By making rebalancing optional, the benefits of rebalancing noted in the ED would be retained without the negative implications noted above.

¹ The objective of the hedge effectiveness assessment in the ED is to ensure that the hedging relationship will produce an unbiased result and minimize expected hedging ineffectiveness.

Forecasted Transactions

We are concerned with the wording in paragraph B65(b) that indicates a history of having previously, highly-probable forecasted transactions that are no longer expect to occur would “call into question” an entity’s ability to predict similar forecasted transactions.

We recommend this paragraph be amended to state that an entity’s entire history (including both forecasted transactions that did and did not occur) should be considered when determining whether similar forecasted transactions are highly-probable of occurring. For example, an entity may have a few missed forecasted transactions with hundreds of forecasted transactions that occurred as expected. The existing wording in the ED indicates the history of those that did not occur would call into question the entity’s ability to predict similar forecasted transaction despite the fact that an entity may only have a very small percentage of missed forecasted transactions in relation to total forecasted transactions. By considering the entire history of forecasted transactions, including both forecasted transactions that did and did not occur, an entity will reach a more accurate conclusion when determining if a forecasted transaction is considered highly-probable.

Additionally, this ‘tainting’ concept in paragraph B65(b) for forecasted transactions appears to be inconsistent with recent guidance issued in IFRS 9, *Financial Instruments*, where tainting was not included as a concept. The ‘tainting’ concept also appears to contradict the rebalancing concept in the ED that enables an entity to de-designate only the portion of a forecasted transaction that is no longer highly-probable. The ED implies that rebalancing of forecasted transactions could only result in an increase in the amount of forecasted transactions, as any decreases in forecasted transaction quantities may ‘taint’ the ability to assert that the remaining quantity is still considered highly-probable.

Transition Guidance

We support the transition guidance in the ED but believe the final guidance should explicitly address the transition for existing hedge relationships and terminated hedging relationships where amounts have been recognized in OCI prior to adoption.

The requirement to meet the qualifying criteria in the ED to continue an existing hedging relationship (which we support) implies an entity would need to prepare new hedge accounting documentation to address how a hedging relationship meets the hedge effectiveness assessment. The ED will allow entities to apply the new hedge accounting guidance to existing hedging relationships on the effective date and would not result in an entity having to de-designate and re-designate a hedging relationship in order to apply the more principles-based criteria in the ED.

To ensure the final transition guidance is interpreted consistently, we suggest adding additional wording in the final guidance to clearly state that an entity is permitted to update existing hedge accounting documentation on the effective date and maintain the qualifying hedging relationship.

The transition guidance is unclear with respect to the treatment of OCI related to cash flow hedges of forecasted transactions where the hedging instrument was terminated prior to the transition date but the forecasted transaction is still expected to occur after the transition date. Under both the existing hedge accounting rules and the guidance in the ED, the amount in OCI would be reclassified into income when the hedged item in the forecasted transaction affects income. Accordingly, we would expect the same method for recognizing the amount in OCI would be

unchanged upon transition. However the transition guidance only specifies that existing hedge relationships would be treated as a continuation of hedge accounting. Since the hedging instrument was terminated prior to the transition date, a hedging relationship would not technically exist on the transition date.

We recommend the final guidance explicitly state that the transition guidance for terminated cash flow hedges of forecasted transaction—where the forecasted transaction is still expected to occur after the transition date—requires the amounts recorded in OCI to be maintained in OCI and to be recognized in income based on the relevant guidance in the ED.

We also recommend the transition guidance explicitly permit these terminated cash flow hedges to apply the guidance in the ED to alleviate concerns with having to apply the existing hedge accounting guidance for the entire life of the forecasted transaction, which could result in being required to apply the old guidance to terminated hedges for a number of periods/years after the new guidance is adopted despite the similarities in reclassifying OCI balances into income. By allowing these situations to be covered under the guidance in the ED, entities would be able to apply the principles-based guidance in the ED and would not be forced to continuously apply the old rules-based guidance.

We appreciate the opportunity to comment on the ED. If there are any questions regarding the content of this letter or you wish to discuss our comments and recommendations, please contact me at (804) 662-2685 or Matt Farney, our accounting policy leader, at (804) 662-2447.

Sincerely,

A handwritten signature in cursive script that reads "Amy R. Corbin".

Amy R. Corbin
Vice President and Controller