



June P Howard
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November 22, 2016

Ms. Susan M. Cospers
Technical Director
File Reference No. 2016-310
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856- 5116

Re: Proposed Accounting Standards Update, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities, File Reference No. 2016-310

Dear Ms. Cospers,

Aflac, Inc. ("Aflac" or "we") welcomes the opportunity to share with you our views regarding the Proposed Accounting Standards Update Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. Aflac acknowledges and appreciates the goal of the Board which is to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and to simplify the application of the hedge accounting guidance in current GAAP based on the feedback received from preparers, auditors, users, and other stakeholders.

Aflac Incorporated is a general business holding company and acts as a management company, overseeing the operations of its subsidiaries by providing management services and making capital available. Its principal business is supplemental health and life insurance, which is marketed and administered through its subsidiary, American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

Aflac offers voluntary insurance policies in Japan and the United States that provide a layer of financial protection against income and asset loss. We continue to diversify our product offerings in both Japan and the United States. Aflac Japan sells voluntary supplemental insurance products, including cancer plans, general medical indemnity plans,

medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans and annuities. Aflac U.S. sells voluntary supplemental insurance products including products designed to protect individuals from depletion of assets (accident, cancer, critical illness/ care, hospital intensive care, hospital indemnity, fixed-benefit dental, and vision care plans) and loss-of-income products (life and short-term disability plans).

We are very supportive of the FASB's effort to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. We also support the FASB's objective of simplifying the application of the hedge accounting guidance in current GAAP. We agree with a majority of the Board's proposed changes and believe the results of those changes will increase the number of hedging strategies that qualify for hedge accounting. Under current GAAP, there are many common risk management activities that economically mitigate risk, but do not qualify for hedge accounting. Other risk management activities may qualify for hedge accounting, but they do not properly reflect the economic results of those activities in the financial statements.

We have summarized our thoughts on the main provisions of the Exposure Draft in Section I below. Section II to this letter contains responses to the detailed questions for respondents and further discussion of our views.

Section I: Comments on Main Provisions Included in the Exposure Draft

Risk Component Hedging

We agree with the Board's decision to allow an entity to designate the hedged risk as the variability in cash flows attributable to changes in a contractually specified component stated in the contract in a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset. We believe that hedge accounting should be allowable as long as it can be proven that the hedging relationship is effective.

We support the proposal to allow a cash flow hedge of interest rate risk of a variable-rate financial instrument, whereby an entity could designate the hedged risk to be the variability in cash flows attributable to the contractually specified interest rate. We also support the addition of the SIFMA Municipal Swap Rate as an eligible benchmark interest rate.

Recognition and Presentation of the Effects of Hedging Instruments

We generally agree with reporting the effect of the hedging instrument in the same income statement line as the hedged item, but we do have further suggested changes to this proposal. For all types of hedges, we believe amounts that are specifically excluded from the assessment of effectiveness should not be reported in the same income statement line as the hedged item. Amounts that are specifically excluded from the assessment of effectiveness are not considered to be part of the hedging relationship and the gain or loss of those excluded amounts should be reported separately in net income and fully disclosed in the footnotes to the financial statements. The proposal requires under a hedge designation, all derivative changes in fair value will be recorded to the same income statement line in which the earnings effect of the hedged item is presented. This would include amounts that were initially excluded from the assessment of effectiveness (i.e. hedge costs). We believe, in these scenarios, the portion of the derivative fair value that relates to amounts excluded from the assessment of effectiveness should be separately reported in derivative gains and losses. Additionally, we agree that derivative ineffectiveness in hedging relationships should be reported in the same income statement line item as the hedged item in situations where those amounts were not specifically excluded at the inception of the hedging relationship. For example, situations may occur where ineffectiveness is present in the designed hedge because the terms of the derivative (notional amount, maturity, interest rate reset dates, payment timing) do not fully match the terms of the hedged item. We believe this type of ineffectiveness should be reported in the same income statement line item as the hedge item, because the ineffectiveness relates to measurements that were specifically included in the assessment of effectiveness, and was a result of an "imperfect" hedge.

For cash flow hedges, we believe that when a hedged forecasted transaction is probable of not occurring, an entity should not be required to recognize amounts reclassified out of accumulated other comprehensive income in the same income statement line item in which the earnings effect of the hedged item would have been presented had the hedged forecasted transaction occurred. We believe this treatment could mislead investors in regards to the financial results reported for that particular line item. For example, if a company hedges a forecasted issuance of debt, and subsequently

does not issue that debt, any gain or loss on the derivative would be reported as interest expense even though there is not debt on the balance sheet. Instead, gains or losses on hedging instruments in these situations should be reported separately in net income and fully disclosed in the footnotes to the financial statements.

Refining the Accounting for the Hedged Item in Fair Value Hedges of Interest Rate Risk

We support the proposed changes to the guidance for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk. We believe the proposed guidance would be very helpful in aligning the accounting and reporting for these hedges with the associated economic results of the risk management activities. To that point, we believe all risk components that are separately identifiable and reliably measurable should be permitted as hedged items in hedge accounting relationships, as long as current GAAP effectiveness tests are met.

Other Simplifications of Hedge Accounting Guidance

We are supportive of the proposals to simplify the hedge documentation and assessment requirements. In particular, one proposal that will likely prove to be very helpful is the ability to apply the long-haul method for assessing hedge effectiveness when the short-cut method is no longer appropriate. We believe this proposal makes logical sense to allow hedge accounting to continue if it can be proven that the hedge relationship is highly effective.

We support the proposal that allows companies more time to perform the initial prospective quantitative assessment of hedge effectiveness, although it may be in the company's best interest to perform the effectiveness testing as close to the hedge inception date as possible.

We believe the proposal that allows an entity the option of performing qualitative assessments of hedge effectiveness in which initial quantitative testing is required, may be useful. However, this proposal could result create inconsistencies in its application. We believe it would be difficult to determine if the applicable qualitative factors have changed to an extent where the entity can no longer qualitatively assert that the hedging relationship is highly effective. We believe quantitative testing is the best method for determining whether the hedging relationship remains highly effective. Therefore, we recommend the Board allow qualitative assessments only in limited circumstances.

We support the proposal that allows an entity, when using the critical terms match method of assessing effectiveness for a group of forecasted transactions, to assume that the timing in which the hedged transactions are expected to occur and the maturity of the hedging instrument match if those forecasted transactions occur within the same 31-day period as the maturity of the derivative.

Disclosures

We believe it is important to focus disclosures on an entity's risk management strategies in conjunction with related quantitative results in order to give the user of the financial statements a clearer picture of the entity's overall risk management strategies. We believe disclosing cumulative basis adjustments related to fair value hedges could be considered useful information as it enables users of the financial statements to better understand the impact of fair value hedge adjustments on the related hedged item adjusted as a result of applying fair value hedge accounting.

The proposal requiring disclosure of quantitative hedge accounting goals is unclear, and may lead to inconsistent application. We believe it is important to focus disclosures on an entity's risk management strategies in conjunction with related quantitative results in order to give the user of the financial statements a clearer picture of the entity's overall risk management strategies. We believe that the current GAAP requirements are adequate to ensure we properly disclose our objectives for using derivatives within our risk management strategies.

We believe enhanced tabular disclosure of fair value and cash flow hedges focusing on the effect of hedge accounting on income statement line items could be useful and would likely not require a significant amount of additional burden to obtain the information required.

Section II: Comments Regarding Questions for Respondents

Question 1: The Board decided it would allow an entity to designate the hedged risk as the variability in cash flows attributable to changes in a contractually specified component stated in the contract in a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset. Do you agree with that decision? Please explain why or why not. If not, what specific alternatives should the Board consider? Please explain why those alternatives would be beneficial.

Although this type of hedging transaction does not currently apply to our company, we agree with the Board's decision to allow an entity to designate the hedged risk as the variability in cash flows attributable to changes in a contractually specified component stated in the contract in a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset. We believe that hedge accounting should be allowable as long as it can be proven that the hedging relationship is effective.

Question 2: The Board decided that it would retain the concept of benchmark interest rates for hedges of fixed-rate financial instruments and forecasted issuances or purchases of fixed-rate financial instruments, maintain the existing list of permissible benchmark rates, and add the SIFMA Municipal Swap Rate to the list.

- a) **Should the Board retain the current concept of benchmark interest rates for fair value hedges of fixed-rate financial instruments and for cash flow hedges of forecasted issuances or purchases of fixed-rate financial instruments? Please explain why or why not.**
- b) **If the Board continues to maintain the current concept of benchmark interest rates, should the Board consider within the concept expectations that a rate will become widely used?**
- c) **If the Board continues to maintain a list of rates, are there any other rates that should be added to the list? Please explain why a particular rate meets the definition of a benchmark rate.**
- d) **Are there other alternatives to the current concept of benchmark interest rates the Board should consider (for example, a principles-based approach)? Please describe those alternatives.**

Yes, we believe the Board should retain the current concept of benchmark interest rates. This practice provides better structure to documenting risk management activities. We believe a specific list of benchmark rates is not the best approach. We believe the Board should consider providing a principles-based approach, for entities to identify appropriate benchmark interest rates that are widely used and do not have significant credit risk embedded in them. As long as the entity is able to soundly document its conclusions as to whether a certain interest rate falls within the Board's principles based definition, then it should be allowed to be used in a hedging relationship.

Question 3: The Board decided that it would allow an entity to use either the full contractual coupon cash flows or the cash flows associated with the benchmark rate determined at hedge inception in calculating the change in the fair value of the hedged item attributable to interest rate risk, except when the current market yield of the financial instrument is below the benchmark rate at hedge inception. In that instance, the total contractual coupon cash flows would have to be used. Do you agree with this decision? Please explain why or why not.

We agree with the Board's decision to allow entities to use the cash flows associated with the benchmark rate determined at hedge inception to calculate the change in fair value of the hedged item attributable to interest rate risk as long as they meet the highly effective threshold. In addition, this method would better align the accounting result with the economics of an entity's underlying risk management objective of the hedge. We agree with the Board's exception provided for situations where the current market yield of the financial instrument is below the benchmark rate at hedge inception. We believe it would not be appropriate to permit an entity to hedge the cash flows associated with the benchmark rate when the current market yield of the financial instrument is below the benchmark rate at hedge inception since this in effect would result in over-hedging.

Question 4: In regard to hedging forecasted transactions, paragraph 815-30-40-5, as amended, states that “a pattern of determining that hedged forecasted transactions are probable of not occurring would call into question both an entity’s ability to accurately predict forecasted transactions and the propriety of using hedge accounting in the future for similar forecasted transactions.” What is your policy on what constitutes a pattern? Are there certain instances or scenarios in which missed forecasts should not be incorporated into the consideration of this pattern?

We do not currently have a policy that defines a pattern of missed forecasts. We believe the definition of a pattern is subjective and is a matter of judgement that takes into consideration all of the circumstances that resulted in a missed forecast. We believe missed forecast scenarios that are out of our control should not be incorporated into the consideration of this pattern. For example, in situations where the forecasted purchase of an asset is missed because that particular asset was not available due to market issues or constraints, should not be incorporated into a pattern of missed forecasted transactions.

Additionally, we believe the guidance should provide further clarification on the concept of “tainting” provisions for forecasted cash flow hedging programs. The Board should differentiate the “tainting” provision between forecasted transactions of existing assets and forecasted transactions that are expected to occur at a future date, such as asset acquisitions or issuances of debt. For example, an entity may enter into a cash flow hedge whereby the entity is hedging a variable-rate security by swapping it to a fixed rate coupon through the maturity date of the security. For various reasons including those within the company’s control or as a part of managing an available-for-sale security portfolio, the entity may sell the bond at a later date. Since the future variable rate cash flows are considered the forecasted transaction, this selling activity could “taint” the entire hedging program or other similar hedge programs. We believe this scenario is economically similar to a fair value hedge of a fixed rate instrument to swap the cash flows to a variable rate, which would not be subject to similar tainting provisions if the underlying investment was sold. Accordingly, selling an investment where cash flow hedging is applied to an existing variable rate investment should not call into question an entity’s ability to accurately predict forecasted cash flows and should not result in “tainting” the future use of this hedging program. We believe scenarios such as this should be fully disclosed in the notes to the financial statements, but should not cause the entire hedging program to be disqualified from hedge accounting. In regards to scenarios where an entity shows a pattern of missed forecasts of transactions projected to occur in the future, we believe the concept of “tainting” is acceptable, except for situations as discussed in the paragraph above.

Question 5: Are there hedging relationships that would be eligible to meet the requirements in the proposed amendments and IFRS 9, but the hedge results would be recognized and presented differently? If so, please describe the transaction and why it would be recognized and presented differently in accordance with IFRS 9.

IFRS 9 requires hedge ineffectiveness to be measured and reported in net income, whereas the proposed amendments have eliminated the concept of hedge ineffectiveness. Therefore certain cash flow hedges that have an amount of ineffectiveness would result in presentation differences between IFRS 9 and the current proposed amendment. This is due to the fact that IFRS would require immediate recognition of ineffectiveness in current earnings, but this proposed amendment would allow the ineffectiveness to stay in OCI until a later period when the hedged item impacts earnings. We believe the IFRS approach in this situation is preferable and do not agree with deferring the timing of hedge ineffectiveness recognition in earnings despite the perceived administrative benefits that would be achieved. Another difference relates to the fact the proposed amendment requires the entire change in value of the hedging instrument included in the assessment of effectiveness be presented in the same income statement line item as the hedged item, whereas IFRS 9 does not prescribe the income statement presentation.

Question 6: Do you agree with the following Board decisions on presentation? Please explain why or why not. If not, what other alternatives should the Board consider?

- a) **For qualifying fair value, cash flow, and net investment hedges, the proposed amendments would modify current GAAP by requiring the entire change in the fair value of the hedging instrument included in the**

assessment of hedge effectiveness to be presented in the same income statement line item in which the earnings effect of the hedged item is presented.

- b) For qualifying fair value, cash flow, and net investment hedges, the proposed amendments would retain current GAAP by requiring changes in the fair value of the hedging instrument excluded from the assessment of effectiveness to be recorded currently in earnings. For qualifying fair value and cash flow hedges, the proposed amendments would modify current GAAP by requiring changes in the fair value of the hedging instrument excluded from the assessment of effectiveness to be presented in the same income statement line item in which the earnings effect of the hedged item is (or will be) presented. For qualifying net investment hedges, there will be no prescribed presentation requirements for changes in the fair value of the hedging instrument excluded from the assessment of effectiveness.**
- c) For cash flow hedges in which the hedged forecasted transaction is probable of not occurring, the proposed amendments would retain current GAAP by requiring amounts recorded in accumulated other comprehensive income to be reclassified to earnings immediately. However, the proposed amendments would require presentation of reclassified amounts in the same income statement line item in which the earnings effect of the hedged item would have been presented had the hedged forecasted transaction occurred.**

We agree with the Board's decision to require the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness be presented in the same income statement line item in which the earnings effect of the hedged item is presented.

We do not agree that amounts that are specifically excluded from the assessment of effectiveness be reported in the same income statement line as the hedged item. Amounts that are specifically excluded from the assessment of effectiveness are not considered to be part of the hedging relationship and the gain or loss of those excluded amounts should be reported in net income using a different line item than the hedged item, and fully disclosed in the footnotes to the financial statements. The proposal requires under a hedge designation, all derivative changes in fair value will be recorded to the same income statement line in which the earnings effect of the hedged item is presented. This would include amounts that were initially excluded from the assessment of effectiveness (i.e. hedge costs). We believe, in these scenarios, the portion of the derivative fair value that relates to amounts excluded from the assessment of effectiveness should be separately reported in derivative gains and losses. Additionally, we agree that derivative ineffectiveness in hedging relationships should be reported in the same income statement line item as the hedged item in situations where those amounts were not specifically excluded at the inception of the hedging relationship. For example, situations may occur where ineffectiveness is present in the designed hedge because the terms of the derivative (notional amount, maturity, interest rate reset dates, payment timing) do not fully match the terms of the hedged item. We believe this type of ineffectiveness should be reported in the same income statement line item as the hedge item, because the ineffectiveness was related to measurements that were specifically included in the assessment of effectiveness, and was a result of an "imperfect" hedge. For cash flow hedges, we believe that when a hedged forecasted transaction is probable of not occurring, an entity should not be required to recognize amounts reclassified out of accumulated other comprehensive income in the same income statement line item in which the earnings effect of the hedged item would have been presented had the hedged forecasted transaction occurred. We believe this treatment could mislead investors in regards to the financial results reported for that particular line item. For example, if a company hedges a forecasted issuance of debt, and subsequently does not issue that debt, any gain or loss on the derivative would be reported as interest expense even though there is no debt on the balance sheet. Instead, gains or losses on hedging instruments in these situations should be reported separately in net income and fully disclosed in the footnotes to the financial statements.

Question 7: Do you agree with the proposed disclosure amendments in (a), (b), and (c) below? Please explain why or why not.

- a) Cumulative basis adjustments related to fair value hedges**

- b) Quantitative hedge accounting goals, if any, that an entity sets when developing its hedge accounting objectives and strategies and whether it met those goals**
- c) Revised tabular disclosure for fair value and cash flow hedges that would focus on the effect of hedge accounting on income statement line items.**

We believe disclosing cumulative basis adjustments related to fair value hedges could be considered useful information as it enables users of the financial statements to better understand the impact of fair value hedge adjustments on the related hedged item adjusted as a result of applying fair value hedge accounting.

The proposal requiring disclosure of quantitative hedge accounting goals is unclear, and may lead to inconsistent application. We believe it is important to focus disclosures on an entity's risk management strategies in conjunction with related quantitative results in order to give the user of the financial statements a clearer picture of the entity's overall risk management strategies.

We believe enhanced tabular disclosure of fair value and cash flow hedges focusing on the effect of hedge accounting on income statement line items could be useful and would likely not require a significant amount of additional burden to obtain the information required.

Question 8: Unless the hedging relationship meets one of the exceptions that assumes perfect offset at hedge inception, an entity would be required to perform an initial quantitative test of hedge effectiveness and would be allowed to perform subsequent hedge effectiveness assessments qualitatively unless facts and circumstances change. Do you agree with this proposed change? Please explain why or why not.

We believe allowing an entity the option of performing qualitative assessments of hedge effectiveness in which initial quantitative testing is required, may be useful and also provide increased operational efficiencies. However, the proposed guidance could create inconsistencies in its application. For example, paragraph ASC 815-20-35-2C.a states "The factors that were assessed at the inception of the hedging relationship that enabled the entity to reasonably support an expectation of high effectiveness on a qualitative basis have not changed to an extent that the entity no longer can assert qualitatively that the hedging relationship was and continues to be highly effective." We believe it would be difficult to determine if the applicable qualitative factors have changed to an extent where the entity can no longer qualitatively assert that the hedging relationship is highly effective. We believe quantitative testing is the only way to know for sure that the hedging relationship remains highly effective for those hedging relationships that do not meet the exceptions that assume perfect offset at hedge inception.

Question 9: The Board decided that an entity may elect at hedge inception to perform subsequent assessments of effectiveness qualitatively. However, certain changes in the facts and circumstances associated with the hedging relationship in subsequent periods may require a quantitative assessment of effectiveness to be performed. Once an entity determines that a quantitative assessment of effectiveness is required, the entity would be prohibited to return to qualitative testing in periods after this determination is made. Can situations arise in which an entity no longer may assert qualitatively that the hedging relationship continues to be highly effective but when tested quantitatively would be highly effective? If so, please describe those circumstances. Should an entity be allowed to return to qualitative testing after such a significant change in facts and circumstances precluded it in a prior period? If so, please discuss the factors that an entity should consider to justify a reasonable expectation that the hedge will once again be highly effective on a qualitative basis.

We believe that in certain cases, companies should be able to return to performing a qualitative analysis. For example, there could be temporary market disruptions caused by factors such as geo-political events. This temporary disruption could cause temporary hedge ineffectiveness. However, when the markets stabilize the particular hedge could once again be highly effective on a qualitative basis.

Question 10: Do you agree with the proposed amendment that would allow an entity to perform the initial quantitative testing portion of hedge documentation at any time between hedge inception and the quarterly

effectiveness testing date using data applicable as of the date of hedge inception? Please explain why or why not.

We support the proposal that allows companies more time to perform the initial prospective quantitative assessment of hedge effectiveness, although it may be in the company's best interest to perform the effectiveness testing as close to the hedge inception date as possible.

Question 11: The proposed amendments related to the timing of the preparation of hedge documentation and subsequent qualitative testing apply to both public entities and private companies. Are there valid reasons why the content of or the timing of the preparation of hedge documentation should be different for public entities and private companies? If so, please describe the specific types of transactions for which different treatment should be considered.

We believe the requirements for hedge documentation and subsequent qualitative testing should be consistent for both public and private entities.

Question 12: Should the effective date be the same for both public business entities and entities other than public business entities?

Yes, we believe the effective date should be the same for both public and private entities.

Question 13: How much time is needed to implement the proposed amendments? Should entities other than public business entities be provided more time? If so, how much more time?

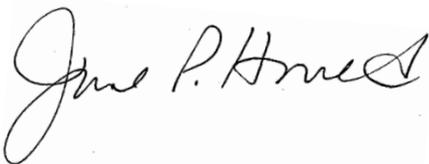
We believe a reasonable effective date should be no sooner than one year from release of the final guidance and that early adoption should be permitted. We also believe entities other than public business entities should not be provided more time to implement the proposed amendments.

Question 14: Do you agree with the proposed transition method and disclosures in paragraph 815-20-65-3? Do you agree with the Board's decision not to allow a retrospective transition approach? Please explain why or why not.

We agree with the modified retrospective transition method, proposed by the Board. A full retrospective transition approach will likely be complex, time consuming, and generally not cost beneficial.

We appreciate the opportunity to share the opinions of Aflac with the Board regarding this proposed guidance. If you have any questions or concerns regarding our comments please feel free to contact June Howard, SVP and CAO, or Resh J. Reese, 2nd VP of Accounting Policy, at (706) 596-3787.

Sincerely,



June P. Howard

Senior Vice President and
Chief Accounting Officer