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Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2016-310

Dear Ms. Cosper:

MetLife, Inc. ("MetLife" or "we") appreciates the opportunity to provide comments on the FASB's Exposure Draft, *Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities* (the "Exposure Draft"). MetLife is a global provider of life insurance, annuities, employee benefits and asset management. Serving approximately 100 million customers, MetLife has operations in nearly 50 countries and holds leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East.

We appreciate the opportunity to comment on the Exposure Draft and offer our perspective. We have also attached our responses (see Appendix) to the questions contained in the Exposure Draft.

We agree with the proposed amendments to refine hedge accounting for both nonfinancial and financial risk components and certain other simplifications of the hedge accounting guidance, such as granting more time to preparers to perform the initial quantitative assessment and the option to perform subsequent assessments on a qualitative basis. However, we do not support the proposed changes to the presentation requirements as they are neither necessary nor an improvement over current GAAP. Additionally, we do not believe the proposed disclosure requirements would provide any additional decision-useful information than the current extensive requirements.

As further discussed in our response to Question No. 5 in the Appendix, we believe further amendments are needed to allow portfolio hedges closer aligned with the typical risk management activities performed by insurance companies and other financial institutions to qualify for hedge accounting treatment. We urge the Board to consider easing the current portfolio hedging requirements within ASC 815 to permit a principles-based approach that reflects how insurers manage interest rate risk.

If you have any questions on the contents of this letter, please do not hesitate to contact me.

Sincerely,

Peter M. Carlson
Executive Vice President and
Chief Accounting Officer

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

Appendix

Set forth below are our specific comments with respect to the questions in the Exposure Draft.

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.

We agree with the Board's decision to allow entities 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 this decision enables entities to only hedge the components that are believed to contribute significantly to the variability in cash flows, and such a hedge would be more likely to achieve the anticipated hedging effectiveness.

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.**

We agree with the Board's decision to add the SIFMA Municipal Swap rate to the current list of benchmark interest rates. We agree that the Board should retain the concept of benchmark interest rates.

We also support a principles-based approach to determine permissible benchmark interest rates so that the Board would not need to provide updates if new rates become widely used. Given developments in the markets, we believe it is possible new interest rate indices could develop in the near to medium term. In particular, the LIBOR index has been challenged as a useful index given a decline in inter-bank lending on an unsecured basis due to increased capital charges and leverage ratio constraints. Inter-bank transactions are trending towards secured lending, and for shorter terms. There have been calls within the industry to shift to more transactional-based indices as opposed to survey-based methods to determine reference rates. The Alternative Reference Rate Committee, a consortium of regulators and swap dealers, formed with the goal to propose and promote a new standard but that work is still in progress. A flexible principles-based approach would allow the accounting for hedging transactions to adapt to changing markets as opposed to waiting for further updates to ASC 815.

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 provide an option of using either the full contractual coupon cash flows, or the cash flows associated with the benchmark rate when calculating the fair value of the hedged item attributable to interest rate risk. The ability to use the cash flows associated with the benchmark rate will more accurately match the change in the fair value of the hedging instruments and should reduce hedge ineffectiveness.

We agree that in scenarios where the current market yield of the financial instrument is below the benchmark rate at hedge inception, total contractual coupon cash flows should be used. When the current market yield of the financial instrument is below the benchmark rate, it normally indicates a situation when the contractual specified coupon cash flows on the financial instrument is expected to be below the cash flows that would have been derived should the benchmark rate be used in the calculation. In this instance, using cash flows associated with the benchmark rate to calculate the change in the fair value of the hedged item would distort the actual fair value change of the financial instrument.

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?

Our policy with respect to hedged forecasted transactions is to consider all the facts and circumstances which may lead to a potential missed forecast. If the missed forecast arose due to severe market disruption or some other event (above and beyond unfavorable market conditions) which could not be reasonably foreseen, we would generally not incorporate it into our consideration of whether a pattern exists.

An interpretation of ASC 815-30-40-5 that has developed over time is that a single missed forecast would constitute a pattern. We do not support this view and do not believe it benefits users of financial statements. A pattern should constitute, at minimum, multiple instances of a missed forecasted transaction associated with a related cause.

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.

We are not aware of any other major hedging relationships that would be eligible to meet both the requirements in the proposed amendments and IFRS 9, but the hedge results would be recognized and presented differently.

However, we do believe there may be certain transactions or hedging strategies that would likely not be eligible to meet the hedge accounting criteria in ASC 815 but might otherwise meet the requirements of IFRS 9. Insurance companies and other financial institutions often use longer term interest rate swaps to extend the duration of their investment portfolios to manage interest rate risk arising from duration mismatches between their longer duration insurance liabilities and shorter duration investment portfolios backing such liabilities.

Achieving hedge accounting for these duration hedges has proven to be difficult for insurers. Per ASC 815-20-25-12, if similar assets or liabilities are aggregated and hedged as a portfolio in a fair value hedge, the individual assets or liabilities must share the same risk exposure for which they are designated as being hedged. Also, each individual item in the hedged portfolio must respond proportionately to the overall change in fair value of the aggregated portfolio being hedged. Even if the hedge is expected to be highly effective, these homogeneity requirements preclude all such hedges from qualifying for hedge accounting treatment. Because the change in fair value of the investment portfolios (primarily composed of available-for-sale debt securities for insurance companies) are recorded in Other Comprehensive Income and the change in fair value of the related hedging instruments are recognized in earnings, earnings are often distorted when there are significant hedge gains or losses not offset by the corresponding changes in the fair value of the hedged investment portfolios.

IFRS 9 may provide more flexibility for these duration-type hedges. The economic relationship requirement is expected to provide an opportunity for more portfolio hedge accounting relationships. Additionally under IFRS 9, for a fair value hedge of interest rate risk relating to a portfolio of financial assets or liabilities, the portion hedged may be designated in terms of an amount rather than as individual assets or liabilities. IFRS 9 does not impose the requirement that the expectation of each individual item in the hedged portfolio respond proportionately to the change in fair value of the portfolio being hedged.

We urge the Board to also consider easing the current portfolio hedging requirements within ASC 815 to permit a principles-based approach that reflects how insurers manage interest rate risk. Additionally, we believe that effectiveness with respect to portfolio hedging should be evaluated in the same manner as hedge effectiveness evaluated for other hedging strategies without imposing further requirements on the individual items being hedged. This would enable more portfolio hedges to qualify for hedge accounting treatment, and thus provide users of financial statements with an improved representation of the true economics of a company's financial performance.

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 understand the Board's reasons for these decisions on presentation, but do not believe specific presentation requirements are necessary. The line items impacted by hedge accounting, including ineffectiveness, are already adequately disclosed in the notes to the financial statements. There would also be significant costs incurred to modify systems to conform to these changes.

Additionally, entities may view ineffectiveness as a capital "cost" of hedging as opposed to a component of the "yield" of the hedged item inclusive of the hedging instrument. These proposed amendments would force entities to combine these two components in the same line item.

For these reasons, we believe that retaining current GAAP is preferable to prescribing specific income statement presentation requirements.

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 do not agree with the proposed disclosure amendments. Derivative and hedge accounting disclosures are already extensive and we do not believe (a) and (c) above would provide users of financial statements with decision-useful information above and beyond current disclosure requirements. With respect (c) above as further described in ASC 815-10-50-4A, it is not clear why the Board is proposing additional tabular disclosures and what incremental information would be required. The impacts to each income and expense line items are existing disclosure requirements and thus we do not believe further changes are warranted.

With respect to hedge accounting goals and targets, there is significant risk of mis-interpretation. Also, the guidance is not clear in terms of whether the proposed disclosure requirements are specifically intended for those hedging instruments qualifying for hedge accounting, or an entity's general risk management activities (of which only some may qualify for hedge accounting). Regardless, we believe any further disclosure requirements of risk management activities for SEC registrants would be better suited outside the financial statements (e.g. as part of Management's Discussion & Analysis or other supplemental information) as these discussions could encompass forward-looking information.

Eliminating redundant disclosure requirements, as well as clearly communicating the information that is most important to the users of each entity's financial statements, is also consistent with FASB's and SEC's ongoing emphasis on improving the disclosure effectiveness.

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 agree with the Board's objectives to ease the application of the current hedge accounting guidance and generally agree with these proposed amendments. However, it is unclear how much preparers will actually benefit from them. If an entity has developed a robust process to perform the initial quantitative test of hedge effectiveness, it is not all that time-consuming or costly to repeat that process on a quarterly basis.

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 agree with the Board's conclusions that if an entity determines a quantitative assessment of effectiveness is required, it would be prohibited to return to qualitative testing in future periods.

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 agree with the proposed amendment. It is consistent with the principle that a hedge accounting relationship should be properly documented at inception while giving entities the operational flexibility to perform certain aspects of that documentation at a later date.

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 do not foresee significant reasons why the content or timing of the preparation of hedge documentation should be different for public entities as compared to private companies.

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

The effective date should be the same for both public business entities and other entities, but we do not oppose a later effective date for non-public business 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 twelve months would be sufficient time for public business entities and other entities 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 proposed transition method. We agree with the Board's reasoning in not allowing a retrospective transition approach as hedge ineffectiveness has generally been immaterial.