August 25, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments

and Hedging Activities

File Reference No. 1810-100

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the TSCPA. The PSC has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee's membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

Members of the PSC read and analyzed the above referenced Exposure Draft (ED) and the related questions posed by the Financial Accounting Standards Board (Board). After reading the ED, the committee is concerned about issues addressed in the ED that go significantly beyond "accounting for financial instruments." We further believe that the very detailed approach of the 71 questions included in the ED tends to obscure the significance of these issues, rather than clarify them. Thus, in our response to the ED, we have taken a macro approach and expressed our concerns about these issues rather than focus on the questions included in the ED.

Macro Issues Related to the Proposed Standard

1. **Credit Impairment:** The ED proposes a very substantive change in the recognition of credit impairment. The Summary section of the ED (page 4) states that the proposed guidance would "remove the existing 'probable' threshold for recognizing impairments on loans" Paragraph 39 implements this by stating "An entity shall not wait until a credit loss is probable to recognize a credit impairment." FAS 5 (the source of the "probable" language) has been used and interpreted in practice for many years. If it is going to be changed, we believe this should be the subject of a separate project, not wrapped into an extremely broad ED on financial instruments. We also note a broader issue, based on the comment on the very first page of the Summary section, that "Currently, a high threshold for recognition of credit impairments impedes timely recognition of losses..." We find this comment disturbing, since it appears to indicate that "recognition of losses" should be driven by considerations other than GAAP. If a company has been following existing GAAP, by

Technical Director Financial Accounting Standards Board August 25, 2010 Page Two

definition its recognition of losses has been "untimely" only under some set of standards other than GAAP. If there are regulatory or legislative concerns about loss recognition, there are more appropriate forums to address those concerns.

- 2. **Comprehensive Income:** The ED continues a trend of developing information asserted to be "useful" in measuring income, but not required to be in the income statement. We believe such an approach is difficult to justify conceptually. In some cases, such as the expansion of fair value accounting called for in the ED, the resulting information is very sensitive to estimates and judgment calls. We recommend the Board step back and ask the threshold question of what information should be in GAAP-based financial statements. This is **not** the same question as "what information would be useful to users?" There are many sources of information today that are available outside of the GAAP-based financial statements. The fact that something is useful does not appear to be a sufficient condition for its inclusion in GAAP-based financial statements. (We note that this is the *only* reason for issuance given in the latest ED on Contingencies.)
- 3. **Equity Method of Accounting:** Paragraphs 130 to 132 of the ED propose a significant change in the criteria for, and application of, the equity method of accounting. We believe that a document dealing with accounting for financial instruments is an inappropriate place to address such an issue. The accounting issues surrounding consolidation or combination of related entities have been the subject of significant changes in accounting principles over the past several years. If this area of accounting is in need of further analysis and revision, we believe it should be addressed in a separate document.
- 4. **GAAP/IFRS Convergence:** We believe the current ED would serve to increase divergence, rather than enhance convergence between GAAP and IFRS. In addition, we do not believe that the divergence represents an improvement. A case in point is the fact that this ED expands the reporting of financial liabilities at fair value. One result of such accounting guidance is that a company can actually report gains as it marks down the fair value of its debt in response to its deteriorating financial position. Under IFRS, such accounting is only an option. But according to this ED, the accounting guidance would become the "default" standard, applicable unless an entity could qualify for different accounting treatment (see ED paragraph 28).
- 5. **Readability of Current ED:** This ED is very difficult to read and analyze due to the lack of a comprehensive Table of Contents or Index. We believe a 218-page document should have a Table of Contents or Index to assist readers in finding the dialogue related to the various issues addressed in the ED. Once we read the document, we found it difficult to go back to sections dealing with specific topics unless we developed our own index. For an example, see the Equity Accounting issue addressed in our point 3 above. Despite its potential significance, it is not mentioned in the *Summary* or in the discussions of *Who Would Be Affected by the Proposed Guidance* or *What Are the Main Aspects of the Proposed Guidance*. One of the detailed 71 questions deals with it, but other than that, it is buried in three paragraphs of the ED. We suggest the Board consider providing the reader with greater assistance in navigating such a lengthy ED.

Technical Director Financial Accounting Standards Board August 25, 2010 Page Three

While our comments on this specific ED were not what the Board specifically requested, we believe attention to the issues we have raised is critical to the development of a final standard capable of generating a broad base of support.

The TSCPA Professional Standards Committee appreciates the opportunity to comment on the proposed standards of the FASB.

Sincerely,

Kathryn W. Kapka, CPA, CIA, CGAP

Kathryn N. Kapka

Chair, Professional Standards Committee

Texas Society of Certified Public Accountants