DEBORAH L. BIANUCCI President & Chief Executive Officer 1810-100
Comment Letter No. 2229

BAI

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September 24, 2010

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

File Reference No. 1810-100

Dear Mr. Golden

BAI is a non-lobbying organization that provides objective information in the form of research and education to executives in financial services companies. For more than 85 years, BAI has played an important role in facilitating industry dialogue in a variety of ways, including the BAI CFO Roundtable which is an informal group of chief financial officers from many of the largest U.S. banks. For 17 years, the BAI CFO Roundtable has been in existence to encourage dialogue on important issues in meetings that are held several times each year.

BAI and our CFO Roundtable appreciate the opportunity to comment on the proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (the "ASU"). This letter is being sent on behalf of the BAI CFO Roundtable to communicate that the members of the CFO Roundtable support the stated objective of the ASU of providing financial statement users with a more timely and representative depiction of an entity's involvement in financial instruments, while reducing complexity in accounting for those instruments. We also commend the FASB's continued efforts to achieve greater convergence with the standards issued by the International Accounting Standards Board (the "IASB"). However, the ASU diverges significantly from the proposed and finalized IASB standards. In our view, the FASB's proposed approach could mislead financial statement users by providing one financial instrument reporting measure (fair value) for almost all financial instruments while not giving sufficient emphasis to a company's business strategy which manages those financial instruments on a non-fair value basis. Accordingly, we believe significant improvements are needed to the proposed ED before it is issued as final guidance.

Our most significant observations are as follows:

Mixed measurement approach

We disagree with the proposal to expand fair value as the primary measure for all financial assets and liabilities. We do not believe that fair value is the most relevant measurement attribute when the business strategy is to hold financial instruments for contractual collection or payment of cash over the longer term. Rather, we believe that a mixed measurement accounting model provides the appropriate flexibility for entities to align the accounting and reporting to their businesses, consistent with the underlying expected economics of their strategies; that is, an entity should be able to apply the appropriate accounting measurement of either fair value, if an instrument is held for short-term trading purposes, or amortized cost if the instrument is held over a longer term to collect contractual

cash flows. In addition, allowing such mixed measurement approach would result in greater convergence with the International Financial Reporting Standards ("IFRS").

Our understanding is that the FASB believes most investors prefer fair value measurement for all financial instruments. We don't have any reasonable insight on the FASB's process for reaching that conclusion, but believe it's based on discussions with certain investors and investor trade groups. We would like to highlight, however, that other organizations, such as PricewaterhouseCoopers, have performed surveys of investors that indicate that the majority of the respondents favor mixed measurement accounting. Those survey respondents did acknowledge that fair value information is relevant; however, they did not support fair value accounting having primacy in the financial statements. Indeed, they seemed more supportive of reporting such information in the footnote disclosures. Moreover, the results of the survey are also consistent with discussions we've had with our extensive and varied investor base.

· Business strategy drives classification

We believe that an entity's business strategy should drive the classification of financial assets and liabilities. However, we note that the proposal places significant emphasis on the "holding period" and "frequency of sales" criteria which would result in certain debt portfolios being classified in a manner inconsistent with the related business rationale. For example, while holding portfolios of financial assets primarily for cash collection purposes, banks may dispose of individual assets within such portfolios prior to their maturity to manage duration or liquidity risks. Based on the proposed holding period criterion, such portfolios may need to be measured at fair value with changes in fair value reported in net income, which would be inconsistent with management's primary business rationale. Accordingly, we believe that measurement and classification should be based on the business purpose rather than driven through the more ambiguous proposed "holding period" and "sales" criterion.

• Credit impairment

We generally support an impairment model that allows for earlier recognition of expected credit losses. We also support the FASB's effort to create a single impairment model for all financial assets held for contractual cash collection purposes. However, we believe that there are significant conceptual and operational weaknesses in the ED's proposed model. We recommend that the FASB work closely with the IASB, regulatory authorities, investors, and industry experts to consider various alternative models and extensively field test the suitable model.

We appreciate the opportunity to comment on this proposed ASU. If you have any questions regarding our comments please contact Joe De Meo, Risk Strategy at BAI at 773-315-3595 or email at idemeo@bai.org.

Sincerely,

Deborah L. Bianucci President & CEO

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cc: BAI CFO Roundtable Members

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