

May 15, 2013

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

Re: Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities - FASB File References: 2013-220 and 2013-221

Dear Ms. Cosper,

The Bank of New York Mellon Corporation ("BNY Mellon") appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, Financial Instruments — Recognition and Measurement of Financial Assets and Financial Liabilities, Subtopic 825-10, and the Consequential Proposed Amendments to the FASB Accounting Standards Codification (together, the "Exposure Draft"). BNY Mellon is a global financial institution with \$356 billion in assets and \$1.4 trillion in assets under management.

The Exposure Draft proposes a different recognition and measurement accounting model from that originally presented to constituents in the FASB's May 2010 proposal that necessarily received a great deal of attention and commentary from constituents. In our September 30, 2010 comment letter on that proposal we stressed the need for a business model assessment in determining the appropriate classification and measurement of financial assets and that amortized cost was a core category for financial assets held by traditional banking entities that principally hold financial assets for the collection of contractual cash flows. We also then stressed the critical importance of more focus by standard setters on the development of a suitable credit impairment accounting model for financial assets, presuming that a "full fair value" accounting model would not be generally accepted. We will separately provide written comments on the FASB's Credit Impairment proposal; however we see that the two proposals are clearly linked and fundamentally dependent upon each other.

We do not believe that a separate asset or portfolio level cash flow characteristics test is necessary for determining the recognition and measurement of financial assets, and continue to strongly support only a business model assessment.

Business model assessment - Eliminate SPPI Test

We believe that a business model assessment is the most suitable approach in performing an assessment as to the classification and measurement of financial assets. We believe that this assessment should be the first and only driving principle underlying the recognition and measurement for financial assets. We believe that the proposed additional principle (or assessment criteria) of "Solely Payments of Principal and Interest" ("SPPI") is redundant in determining the recognition and measurement of financial assets. When we originate or acquire certain types of financial asset, they are acquired fundamentally with consideration of the business model into which we would classify and measure such assets.

Business model assessment – Three Classifications Reflect the Way Assets are Managed

The three classifications proposed (Amortized Cost, Fair Value Through Other Comprehensive Income ("OCI"), or Fair Value Through Profit or Loss) suitably reflect the fundamental business models of banking and the way the financial assets are managed. Generally speaking in terms of types of financial assets, we support an approach that results in a presentation of a bank's Loans at Amortized Cost and which would also result in a presentation of its Debt Securities that are held principally for the collection of contractual cash flows also at either Available for Sale or, if no sales are expected, at Amortized Cost ("Held to Maturity" or "Held-to-Collect") without any tainting when periodic sales may be necessitated by credit or other external events.

We agree with the FASB's proposal that some financial assets should be mandatorily measured at fair value through ("OCI"), specifically, financial assets held within a business model in which assets are managed both in order to collect contractual cash flows and for sale. We agree with the proposal that interest revenue, credit impairment and any gain or loss on derecognizing would be recognized in profit or loss, while all other gains or losses would be recognized in OCI. We also agree that interest income and credit impairment would be computed and recognized in the same manner as for financial assets measured at amortized cost, while cumulative gain or loss recognized in OCI would be reclassified to profit or loss when the financial asset is derecognized. Such changes are consistent with the IASB's proposal and promote convergence.

Business model assessment - Fair Value Option Should Not be Amended

We agree that the Fair Value Option (fair value through profit or loss) should be available for financial assets that would otherwise be measured at fair value through OCI, however we do not believe that this should be limited to only instances where this would eliminate or significantly reduce a measurement or recognition inconsistency (i.e., an "accounting")

mismatch"). We believe that this would pose an unnecessary operational and documentation burden on preparers. The fair value option has worked well in the past and it is not in need of revision. Accordingly, we recommend that the current availability of a fair value option should be retained.

Significant, unnecessary complexity with the cash flow characteristics assessment

We have several concerns with how the proposed SPPI criteria may be applied in practice as this is a new principle and we are concerned that complex interpretative guidance may develop throughout the implementation period that could severely restrict the types of financial assets that may meet the SPPI criteria. A variety of instruments and instrument structures will need to be evaluated, such as different types of interest rates, rate reset provisions, prepayment and extension options, contingencies, and other features; all of which do not affect the intent to hold the asset for the collection of cash flows.

Even for the most common transactions, such as the purchase of a plain vanilla debt security in the secondary market, the definition of "principal" would include the premium or discount on the instrument. This means holders of the same instrument may reach different conclusions under the SPPI test, depending upon when they acquired the instrument. In particular, those that purchased the instrument after origination have a higher likelihood of not meeting the SPPI criterion versus those that purchased the same instrument at or near origination.

We strongly believe that the proposed SPPI test should not be a necessary step in determining recognition and measurement when the business model assessment has already been made. We believe that (once finalized, and possibly in a revised form) the new credit impairment proposal of the FASB should counter any perceived abuses of the Amortized Cost or FV-OCI classifications because, without needing any proposed SPPI test, credit losses would still require a new expected losses measurement to be expensed through the profit or loss.

As context, it is important to note that when the FASB moved away from its 2010 proposal for full fair value measurement of financial assets (which was sparked initially by the 2008 financial crisis and constituent's concerns about "Too Little Too Late" recognition of credit losses), that the core issue in the accounting for financial assets was then isolated to measurement of credit impairment. Recognition and measurement were not widely discussed by constituents as in need of significant changes once the fair value debate had been resolved. The income statement and stockholder's capital should better reflect the effects of expected credit losses once the credit impairment proposal has been finalized and implemented, while the recognition and measurement of financial assets should solely be based on the economics of the business models under which the assets are held.

We do not believe that the contractual terms of an individual financial asset should dictate its classification and measurement. The business model in which the financial assets are held is sufficient to determine a financial asset's classification and measurement. We support the FASB's approach to simplify the accounting for financial assets by not distinguishing between loans and securities, for example, and as such we believe that the business model within

which we hold such assets should be the principal determinant of their classification on the balance sheet.

We support the continuation of the current bifurcation accounting for embedded derivatives that are not clearly and closely to the host instrument, which would address the same (or similar) objective that the SPPI test appears to be targeted at, but without the undesired consequences of more instruments becoming classified contrary to where the business model test might have indicated. This has been long established in GAAP and would not require voluminous and complex new interpretative guidance be developed and tested over many years.

Sales of Certain Amortized Cost Assets should be Permitted

We agree sales out of the amortized cost category should be limited. We recommend, in addition to the circumstances noted in the Proposal, other instances where sales may be made should be expressly permitted. For example, sales should be allowed when an entity has verifiable concerns about expected significant deterioration in the issuer's creditworthiness - waiting for the time when such credit deterioration actually occurs would be too late to maximize collection of cash flows. Permitting an entity to factor in its expectation regarding future cash flows also aligns the Proposal with the "current expected credit loss" approach in the FASB's proposal on Credit Losses. In addition, we disagree with the Proposal's conclusion that sales of financial assets resulting from managing concentrations of credit risk would be inconsistent with the objective of amortized cost classification, as diversification of credit and avoidance of an undue concentration is a hallmark of maximizing collection of cash flows for a portfolio of debt securities.

Presentation of "own credit" gains or losses on financial liabilities is improved

We agree with the FASB's proposal, which requires an entity to present in OCI fair value gains or losses attributable to changes in the credit risk of financial liabilities designated at fair value through profit or loss, without otherwise changing the classification and measurement of those financial instruments.

We have commented on each of the relevant questions raised by the FASB in the Appendix to this letter.

Thank you for considering our comments regarding the Exposure Draft. If you have any questions or require further information, please contact me at 212-635-7080 or Ross Brown at 212-635-7023.

Sincerely,

John A. Park Controller

APPENDIX

Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities, Subtopic 825-10

QUESTIONS FOR RESPONDENTS

Scope

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?

Yes, we agree with the scope of financial instruments covered by the Exposure Draft.

Question 2: Do you agree with the industry-specific specialized guidance scope exceptions in paragraph 825-10-15-9? If not, why? What would you propose instead?

We note that certain specialized industry guidance would be retained including, for example, guidance for brokers and dealers where proprietary trading securities would continue to be measured at fair value. We agree with this, however we are also of the view that the business model assessment would result in the same recognition and measurement conclusion and there may be opportunities to further simplify the codification.

Recognition

Question 4: Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?

We do not believe that the contractual cash flow characteristics assessment test (or SPPI test) is necessary because it is performed at the instrument level and the business model assessment test performed at a portfolio or business level should be sufficient to determine the suitable recognition and measurement model to be applied for financial instruments. The SPPI test would introduce new complexities to the accounting for financial instruments and would place undue operational burdens upon preparers for uncertain benefits. We support the continuation of the current bifurcation accounting for embedded derivatives that are not clearly and closely to the host instrument, which would address the same (or similar) objective that the SPPI test appears to be targeted at, but without the undesired consequences of more instruments becoming classified contrary to where the business model test might have indicated.

Question 5: The proposed amendments define *principal* as the amount transferred by the holder at initial recognition. Should the definition of *principal* be expanded to include repayment of the principal amount at maturity or other settlement? If so, what instruments would fail (or pass) the contractual cash flow characteristics criterion as a result of this change?

Principal is a commonly used business term. We do not believe the FASB should redefine it to be the amount transferred by the holder at recognition, nor should the definition be expanded. Both uses will create confusion in the application of the new standard.

Question 6: Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?

We do not agree that the cash flow characteristics assessment is a necessary test. This new added complexity can be avoided by having only the business model assessment test.

If the FASB decides to retain the SPPI proposal, then we believe there would need to be developed many specific examples in the guidance and illustrations showing how this test would be applied in practice.

Question 7: Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?

Refer to our response to Question 6.

Question 8: Do the proposed amendments contain sufficient application guidance in paragraphs 825-10-55-17 through 55-20 on assessing a modified economic relationship? If not, why?

Refer to our response to Question 6.

Question 9: For beneficial interests in securitized financial assets, the proposed amendments would require an entity to look through to the underlying pool of instruments in determining whether the tranche contains payments of solely principal and interest. Do you agree with this look-through approach? If not, why? What would you propose instead?

We do not agree that the cash flow characteristics assessment is a necessary test. This new added complexity can be avoided by having only the business model assessment test. We believe that there should be no look through test as this would introduce unnecessary complexity.

Question 10: Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?

Yes. We believe that this assessment should be the first and only driving principle underlying the recognition and measurement for financial assets.

Question 11: Do the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the proposed guidance provided to describe those business models? If not, why?

Yes.

Question 12: Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?

We do not believe that any tainting notion (explicit or implicit) should be provided in the standard, and that the principle described in the business model assessment coupled with professional judgment and disclosure transparency would be sufficient. We believe that a business model assessment when taken together with a clearly and closely related principle and a sound credit impairment principle for financial assets, that the risk of material nonrecognition of income statement or other comprehensive income statement impacts would be significantly lessened.

Question 13: The proposed amendments would require loan commitments, a revolving line of credit, or a commercial letter of credit (the potential creditor) to be measured on the basis of the likelihood of exercise of the commitment and the classification of the underlying loan that would be made upon exercise of the commitment. Do you agree with the proposed classification of loan commitments? If not, why? What would you propose instead?

We disagree and believe that these financial contracts should be recognized or disclosed as they are today under current GAAP.

Initial Measurement

Question 14: Do you agree with the initial measurement principles for financial instruments? If not, why?

Yes.

Subsequent Measurement

Question 16: Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?

Yes. However, we believe that a fair value option should be retained.

Question 17: The proposed amendments would require a nonrecourse financial liability that is settled with only the cash flows from the related financial assets (see paragraph 825-10-35-11) to be measured on the same basis as those assets. Do you agree with the proposed amendments? If not, why? What would you propose instead?

It is unclear whether this would apply to non-recourse debt in a leveraged lease and this would also depend on the outcome of the FASB's Lease Accounting project as it may impact leverage lease accounting and require a gross presentation of the non-recourse debt in a leveraged lease.

Question 18: The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain, until the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?

Yes. However we also believe that a Fair Value Option should be retained. We also believe that, additional disclosures could be considered for sales of such financial assets that have been completed after the financial reporting period has ended, but before the issuance of the financial statements.

Question 19: The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?

Yes.

Question 20: Should an entity evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income separately from the other deferred tax assets of the entity (rather than combined and analyzed together)? If not, why?

No. We believe that an entity should not separately evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at FV-OCI from the other deferred tax assets of the entity because it should be determined on the same basis (or method) as the way the entity determines its valuation allowance when determining its tax obligations in each relevant jurisdiction it files its tax returns. We determine our deferred tax valuation allowances at the tax jurisdictional level which we believe best reflects the tax consequences.

Question 21: Under the amendments in this proposed Update, hybrid financial assets would not be required to be analyzed for bifurcation under Subtopic 815-15 and would be assessed in their entirety on the basis of the proposed classification requirements. In contrast, hybrid financial liabilities would be assessed for bifurcation and separate accounting under Subtopic 815-15, and the financial liability host contract would be subject to the proposed amendments. Do you agree with this proposal? If not, why? What would you propose instead?

No. We believe that the current bifurcation accounting under Subtopic 815-15 should be retained.

Question 22: The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?

Yes.

Presentation

Question 26: The proposed amendments would require an entity to separately recognize in net income changes in fair value attributable to foreign currency gain or loss on foreign-currency-denominated debt securities measured at fair value through other comprehensive income (see paragraphs 825-10-45-14 through 45-15). Is the proposed fair-value-based method provided for computing the foreign currency gain or loss component operable? If not, why? What would you propose instead?

Yes, we believe this would be operable and would represent a simplification from current GAAP and be convergent with IFRS. Increased income statement volatility would, however, be expected.

Disclosures

Question 29: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?

No. We do not believe that the new proposed disclosure requirements regarding Core Deposits will assist users in their understanding of a Bank's core deposit liabilities and there will be significant judgment required by preparers in defining its "core deposit" balances to which these disclosures might apply. In addition, significant judgment would be required in determining what the "all-in-cost-to service" rate applicable to such core deposits might be.

Transition and Open Effective Date Information

Question 30: Should an entity be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option under the proposed requirements? If not, why?

No.

Question 31: Should the effective date be the same for both public entities and nonpublic entities?

Yes.

Question 32: How much time is needed to implement the proposed guidance?

We believe that a minimum of two years is needed to implement the proposed guidance.

Question 33: Are the transition provisions in this proposed Update operable? If not, why?

No. We believe that the transition provisions would need to be readdressed once the Board has redeliberated this proposal.

Equity Method Accounting

Question 34: The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?

No. We believe that this method of measurement should only be applied to equity method investments for which it is the entity's intent to sell the investment; i.e, considered to be "Held For Sale". We do not agree with the proposed language "available for exit" as this would capture many investments for which fair value through net income accounting would not be representative of the long term nature of many equity method investments.

Question 35: The proposed amendments would change the current two-step impairment model for equity method investments to a one-step impairment model for all equity investments. Do you agree with the proposed one-step equity impairment model? If not, why? What would you propose instead?

No. We believe that the existing guidance at ASC 323-10-35-31-32A should be retained. A loss in value of an investment that is other than a temporary decline should be required to be recognized. A current fair value of an investment that is less than its carrying amount may be the first indicator (step one) that an equity method investment has a loss in value of the investment, however we believe that all factors should be evaluated in determining the second step as to whether the loss is other than temporary before any write down is required.

Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities, Subtopic 825-10 – Proposed Amendments to the FASB Accounting Standards Codification ("proposed Update")

Question 1: Do you believe that the proposed consequential amendments that would result from the proposals in the proposed Update have been appropriately reflected? If not, what alternative amendment(s) do you recommend and why?

No. We believe that the proposed consequential amendments would need to be readdressed once the Board has redeliberated this proposal.

Question 2: Do you believe that all guidance related to financial instruments in various Topics in the FASB Accounting Standards Codification (for example, Topics 310 and 470) should be consolidated into a single Topic?

Yes. We believe that this would provide less complexity.

Question 3: The proposed amendments also would eliminate the fair value option (for financial instruments not within the scope of the proposed Update on financial instruments) in current U.S. GAAP (see paragraphs 825-10-15-4), related to guarantees, contingencies, rights and obligations of insurance contracts and warranties, written loan commitments, and firm commitments. Do you agree with the proposed elimination and the effective date and transition guidance? If not, why? What would you propose instead?

No. We believe that a fair value option should be retained for these financial instruments.