2013-220
Comment Letter No. 137

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May 31, 2013

Technical Director
File Reference No. 2013-221
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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Submitted via electronic mail to director@fasb.org

Re: Proposed Accounting Standards Update: Financial Instruments—Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* (the "Proposed ASU")

Thank you for the opportunity to comment on the Proposed ASU. General Motors Company (GM) is a global leader in the automotive industry. GM designs, builds and sells cars, trucks and parts and, with its partners, produces vehicles in 30 countries. GM has extensive relationships with its dealer network in multiple jurisdictions. GM's brands include Chevrolet and Cadillac, as well as Baojun, Buick, GMC, Holden, Isuzu, Jiefang, Opel, Vauxhall and Wuling. More information on GM and its subsidiaries can be found at http://www.gm.com.

On behalf of GM, we support the Financial Instruments project, including the overall goals set by the Board, particularly increasing convergence in accounting for financial instruments, while also attempting to simplify the accounting. We strongly support the efforts of the Board to develop a financial reporting and disclosure model for financial instruments that is transparent and provides financial statement users with the information needed to assess financial performance.

While we support these goals, we are concerned that the proposed framework overemphasizes fair value and limits amortized cost measurement for many traditional and customary lending products and debt securities that are traditionally held for the collection of contractual cash flows. Furthermore, though we support convergence, we believe the cost/benefit of convergence must be considered, and we have not found there to be a compelling cost/benefit case to support the fundamental changes the Proposed ASU makes to the current recognition and measurement model. These changes, as we understand them, would likely result in very similar outcomes for GM compared to current GAAP, provided that automotive loans continue to qualify for measurement using amortized cost under the contractual cash flow test (discussed below). If current offerings of automotive loan products don't qualify for amortized cost because of late fees or similar provisions, the impact of the changes would be significant; consequently, we would be in strong opposition to the Proposed ASU. If these changes would be similar to current GAAP, we do not believe the benefits of the wholesale changes outlined in the Proposed ASU justify the costs of assessing and transitioning to the new guidance, or the ongoing costs to comply with the measurement requirements.

Another concern we have is that we believe the Proposed ASU increases overall complexity in terms of application and the usefulness of the resulting information does not represent an improvement over current GAAP. In our view, it would be more efficient and useful to retain the current recognition and measurement guidance and for the Board to focus on targeted changes that address specific concerns and improve disclosures as necessary.

If the Board elects to proceed with the Proposed ASU as drafted, we have several significant concerns, particularly with (1) the application of the contractual cash flow characteristics to certain financial assets, (2) the scope of assets measured at fair value with changes reported in other comprehensive income, (3) the measurement of equity instruments at fair value with changes reported in net income, and (4) a few other items as further explained in the following paragraphs.

We also would like to note that we strongly support the guidance in the illustration that provides for an entity to measure loans at amortized cost when they are transferred to a securitization vehicle that is consolidated, so long as the business model is consistent with the primary objective of amortized cost for loan classification. In terms of impact to GM specifically, GM Financial (GMF), a wholly-owned captive finance subsidiary of GM, does use securitization vehicles to finance its loan and lease origination volume. If the Board elects to proceed with the Proposed ASU, we believe this concept should continue in any revision.

We are pleased to provide suggestions for consideration as further explained in the following paragraphs; in addition, we've provided responses to select questions presented in the ASU that are included in the Appendix to this letter.

Application of the Contractual Cash Flow Characteristics to Certain Financial Assets

The application of contractual cash flow characteristics test to certain financial assets could produce unintended consequences unless modified or clarified to provide additional guidance. On the surface, the Proposed ASU would appear to consider the contractual late fee cash flows resulting from loan delinquencies as not relating "solely" to the collection of principal and interest, such that certain loans with significant late fee collections would not pass the cash flow characteristics test, thus requiring the loans to be measured at fair value with changes reported in net income (FV-NI).

For example, GM Financial provides consumer automotive financing in the form of loans. GMF holds such loans for collection, not for sale. Many of the consumer automotive finance receivables held by GMF are originated to consumers whose credit is considered less than prime; consequently, delinquencies are historically higher than those of a prime portfolio. GMF charges and collects contractual late fees provided for in the loan contracts. The amount of late fees collected relative to delinquent loans varies contractually by country and in some cases GMF also collects interest on the payments that are delinquent. As such, late fees, which are an important part of the business and are considered necessary to compensate GMF for additional activities required to service delinquent loans, are significant. The late fees, recognized in other income, can represent as much as three to five percent of the total interest cash flows earned on the associated principal balance.

We believe a conclusion that these automotive loans should be measured at FV-NI because they do not meet the contractual cash flow characteristics would be untenable. We do not believe such a result is likely the intent of the Board, as the resulting accounting would be completely disconnected from both GMF's business model and its underlying economics. In addition, we are concerned that loans with certain interest rate reset features may not be eligible for use of the amortized cost measurement in cases where no intention exists to sell such loans. If the Board elects to proceed with the Proposed ASU, we believe the cash flow characteristics test should be eliminated, modified or clarified to provide a result whereby loans such as these are measured at amortized cost.

Additionally, we believe it is unclear how the Proposed ASU will impact receivables having volume discounts, rebates, early payment terms (for example, a supplier offers a 2% discount if the invoice is paid within 15 days instead of the normal terms) and cooperative advertising agreement features. Our arrangements with dealers often contain more than one of these features. Should the Proposed ASU result in what we would believe are normal trade receivable balances to be measured at FV-NI because they do not meet the contractual cash flow characteristics, we would be troubled by the conclusion.

Finally, it is important to note that effective risk management could at some point dictate sales of certain loans measured at amortized cost not contemplated at inception to reduce concentrations of risk, i.e., by geography, credit or product. We do not believe the FASB model should be restrictive to the point that it effectively prohibits responsible selling activity, either by selling loans directly or through a securitization vehicle. The Board should carefully consider the overall business model, as well as the underlying economics, in developing the final standard.

Scope of Assets Measured at Fair Value with Changes Reported in Other Comprehensive Income

We are concerned the proposed framework for assessing the cash flow characteristics of certain financial assets is as complex or more complex as the existing framework. We also believe that the Board's solely payment of principal and interest (Solely P&I) approach is overly restrictive and would inappropriately preclude many financial assets from being accounted for using amortized cost or FV-OCI. The contractual cash flows of many financial assets are often not "solely" payments of principal and
interest due to the presence of miscellaneous embedded derivative features that often would not be expected to be triggered in the future. We do not support such a bright line test and recommend that if the contractual cash flows predominantly or substantially relate to principal and interest, the financial assets should pass the cash flow characteristics assessment.

Furthermore, based on the requirements outlined in the Proposed ASU, it appears several instruments accounted for at amortized cost under current GAAP would fail the cash flow characteristics test (e.g., prepayments and interest rate resets), resulting in measurement at FV-NI. If the Board elects to proceed with the Proposed ASU, we believe the scope of financial assets measured at FV-OCI should be modified to include loans and debt securities that pass the business model test. The contractual cash flow characteristics test should not be required to permit a FV-OCI classification. To make this modification of the proposed model work, we believe the Board would also have to require bifurcation of hybrid financial assets to separate embedded features when they are classified and measured at FV-OCI.

We believe the Proposed ASU could negatively impact the market for debt securities that do not "clearly" pass the cash flow characteristic test. While the Proposed ASU provides that "...an entity need not make a detailed assessment if it is clear with little or no analysis that the cash flows of the financial asset under assessment could or could not be more than insignificantly different from the cash flows of the benchmark instrument," we are not convinced the process will be simple or cost effective in many situations. Comparing contractual cash flows with the benchmark cash flows on an asset-by-asset basis (including determining whether a tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments) in a controlled environment is likely in practice to entail a significant amount of work.

As an example, one of the primary elements of GM's strategy is to maintain a strong balance sheet by reducing financial leverage given the high operating leverage of our business model. Consequently, we had approximately $10 billion in marketable securities classified as available-for-sale at December 31, 2012. While about half of those investments are securities issued by the U.S. government and U.S. government agencies and would likely meet the contractual cash flow characteristics without much operational effort, the other half of the securities are investments in corporate debt securities that may require a more detailed assessment. The required assessment to conclude that these securities should be measured at FV-OCI would need to be accomplished in a controlled environment to support such a conclusion and, as indicated above, we are not convinced the process will be simple or cost effective in many situations. Furthermore, we do not believe the application of the contractual cash flow test to be clear in many cases. Developing a process for GM to assess all investments would be unproductive at best, and may result in further self-imposed limitations on the types of investments we ultimately purchase.

We are also concerned that the Proposed ASU may create an environment that negatively impacts the desire to invest in certain types of debt securities, in that many investors will be averse to investing in securities that are required to be measured at FV-NI. The potential negative impact on the market for those securities that take on additional credit risk (greater than 50 percent) by providing a higher yield on those instruments, because they will be required to be measured at FV-NI, are of significant concern to GM relative to investments and to funding of automotive loans. Impacts that are potentially negative to the current credit market should be avoided. Consequently, we believe the Proposed ASU should allow for certain instruments of this type to be measured at FV-OCI, rather than FV-NI, so long as they meet the business model test.

If the model is changed as suggested above to allow for more instruments to be measured at FV-OCI, rather than FV-NI, if they meet the business model test, a significant portion of the operational cost of applying the Proposed ASU would be eliminated and certain investments that take on additional credit risk for a higher interest return could continue to provide investment opportunities. While GM currently does not invest in these types of securities, we believe they are an important part of the securities market in general.

To illustrate the suggestion outlined herein, we would propose replacing the model in the Proposed ASU with the following:

		Contractual Cash Flow Characteristics	
		Solely P&I	Not Solely P&I
Business Model	To Manage Financial Assets to Collect Contractual Cash Flows	Amortized Cost	FV-OCI
	To Manage Financial Assets to Collect Contractual Cash Flows or to Sell	FV-OCI	FV-OCI
	Others	FV-NI	FV-NI

* *Effectively the Solely P&I test would not be required for the "To Manage Financial Assets to Collect Contractual Cash Flows or to Sell" and "Others" business models.*

Measurement of Equity Instruments at Fair Value with Changes Reported in Net Income

We believe the measurement of equity instruments at FV-NI, unless accounted for under the equity method or consolidated, should not be the only accounting option. Pursuant to certain business strategies, recognition of changes in the fair value of the equity instrument resulting from a volatile stock market may not present results consistent with the business purpose or economics of the investment. If certain equity instruments are managed and held for the purpose of providing a long-term investment, such as an overall long-term investment strategy or in order to enhance a business relationship, we believe measurement at FV-OCI should be an option if the Board elects to move forward with the Proposed ASU. The approach would be consistent with the option under both IFRS 9 and the IASB proposed model that allows an entity to make an irrevocable election to account for an equity instrument at FV-OCI.

Other

The Proposed ASU provides that debt issuance costs be accounted for as interest expense and reported on the balance sheet as deferred charges pursuant to ASC 835-30-45-3. Paragraphs 235 to 237 of CON 6 discuss the difference between debt discount or premium and debt issuance costs. CON 6 states that debt issuance costs are not assets because they provide no future economic benefit and that debt issue costs may be accounted for similar to a debt discount. However, ASC 835-30-45-3 provides different guidance, is higher level GAAP, and is now referenced as the appropriate accounting guidance in the Proposed ASU. We recommend the Board consider whether debt issuance costs are assets, and if they are not assets, consider changing the Proposed ASU to provide that debt issue costs be accounted for similar to a debt discount.

We also recommend providing further clarification regarding the held-for-sale criteria for equity method investments. We are concerned the interpretation of the criteria could potentially be too broad, resulting in long-term strategic ventures being accounted for at fair value, simply because it is common practice to have a defined exit strategy. This could have a pervasive and significant impact on practice as the formation of joint ventures is the primary means for expanding business activities in some geographic regions.

Disclosures

We strongly support complete and transparent disclosures that assist financial statement users in the understanding of the financial results. However, we believe that useful information included within voluminous disclosures is likely to be obscured by the sheer volume of detailed disclosures required by current and proposed standards. Whether the Board elects to move forward with the Proposed ASU or determines to retain the current recognition and measurement guidance and focus on targeted changes that address specific concerns and improve disclosures as necessary, we believe the Board should carefully consider each additional proposed disclosure requirement to avoid “disclosure overload”.

We believe it is difficult to assess the adequacy of the disclosures when the disclosure requirements are specified in each standard rather than in accordance with a clear disclosure framework, and believe that recent Standards issued by the Board require too many disclosures especially for interim reporting periods. We believe it is important for the Board to develop an overarching framework that specifies the objectives of the disclosures in financial statements and how these might be achieved in such a manner as to simplify the identification of disclosures in each area. We encourage the Board to develop a disclosure framework as soon as timetables allow.

As to the specific disclosure requirements set forth in the Proposed ASU, we believe the additional parenthetical disclosures on the face of the balance sheet will be cumbersome. In particular, those that show the amortized cost balances of amounts carried at fair value may be confusing and there may not necessarily be significant value to such disclosures being presented on the face of the balance sheet.

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Again, I appreciate the opportunity to provide the Board with comments and recommendations for consideration. I am available to discuss this letter with the Board at the earliest convenience. Should you have any questions or need to discuss this letter, please feel free to contact me at (313) 667-3434.

Sincerely,

/s/ Thomas S. Timko

Thomas S. Timko
Vice President, Controller, and Chief Accounting Officer
General Motors Company

Appendix

Note: In our view, as noted above, it would be more efficient and useful to retain the current recognition and measurement guidance and for the Board to focus on targeted changes that address specific concerns and improve disclosures as necessary. We determined to provide answers to certain specific questions below predicated on a notion that the Board elects to proceed with the Proposed ASU as drafted.

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?

While the Proposed ASU on the surface appears to convey the principle, we believe there are problems with the clarity of the principle as written and/or the principle itself, in that the application of contractual cash flow characteristics test to certain financial assets could produce unintended consequences unless modified or clarified to provide additional guidance. Additionally, we believe it is unclear how the Proposed ASU will impact receivables having volume discounts, rebates, early payment terms (for example, a supplier offers a 2% discount if the invoice is paid within 15 days instead of the normal terms) and cooperative advertising agreement features. Our arrangements with dealers often contain more than one of these features and should the Proposed ASU intend to result in what we would believe are normal trade receivable balances to be measured at FV-NI because they do not meet the contractual cash flow characteristics we would be troubled by such a conclusion. Please see the comments in our letter above.

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?

No. It is not clear how the model should be applied to financial instruments that may have more than one element that modifies an economic relationship. For example, in such cases, should the assessment be performed based on each element separately or with the elements taken as a whole?

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?

The “look-through” approach appears to work within the context of the model in the Proposed ASU; however, we believe it to be one that is impractical to operationalize. This is one of the reasons that, in our view, it would be more efficient and useful to retain the current recognition and measurement guidance and for the Board to focus on targeted changes that address specific concerns and improve disclosures as necessary. Should the Board elect to proceed with the Proposed ASU, we believe that collateral on financial instruments within the pool should be ignored for purposes of assessing the classification of the beneficial interest. Thus, when collateral that does not meet the cash flow characteristics criterion is held or could be held within the pool due to a credit event, the classification of the beneficial interest would not be affected.

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. However, if the Board elects to consider suggested changes provided in our letter, the business model assessment may need to consider whether additional criteria are required relative to those items that don't meet the contractual cash flow characteristics but could be measured at FV-OCI if they meet the business model requirements.

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?

See answer to Question 10 above, as the Board may need to consider whether additional illustrations are required relative to those items that do not meet the contractual cash flow characteristics but could be measured at FV-OCI. That said, we did not identify any issues with the proposed guidance provided to describe the business models. However, we believe proposed guidance in ASC 825-10-25-30, including the interplay between this guidance and the requirement to record fair value measurement through other comprehensive income for individual financial assets that are managed in a business model with the objective to either hold to collect or sell, is not clear. That is, it is not clear as to why the Proposed ASU requires bifurcation of an asset pool into the three different classification categories when at inception it is uncertain whether the pooled assets will be held to collect or sold and not require a similar treatment of individual assets held as a portfolio of assets. As such, we believe that further clarity is needed on how the criterion should be applied to portfolios of assets where an entity has more than one business model, and at inception it has not yet determined which business model would be applied to a specific instrument.

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 believe it should rely on the principle and exercise of professional judgment because the tainting notion is not operational and accounting should not drive business decisions. Sales in response to unanticipated changes in the economic environment should not preclude similar assets from being classified and measured at amortized cost in the future. However, we do believe disclosures should be provided relative to changes so that financial statement users can assess the decisions and related reasoning.

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 believe the Proposed ASU should provide guidance as to how to measure on the basis of the likelihood of exercise or subsequent changes to that initial estimate used in the assessment. We are also concerned that the Proposed ASU would result in a greater number of loan commitments being measured at FV-NI than under the current model and the potential impact to the market for those products, including revolving lines of credit, may be negatively impacted.