



CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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August 30, 2010

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
Norwalk, CT 06856-5116

**Re: File Reference No. 1810-100, Proposed Accounting Standards Update,
“Accounting for Financial Instruments (Topic 825) and Revisions to the
Accounting for Derivative Instruments and Hedging Activities (Topic 815)”**

Dear Mr. Golden:

The U.S. Chamber of Commerce (“Chamber”) is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.

The CCMC is committed to promoting effective and transparent financial reporting that enables capital markets to function efficiently. It welcomes the opportunity to comment on the Financial Accounting Standards Board (“FASB”) exposure draft on “Accounting for Financial Instruments (Topic 825) and Revisions to the Accounting for Derivative Instruments and Hedging Activities (Topic 815)” (“Proposal”). While the CCMC will be participating in a joint comment letter with other trade associations, the CCMC is submitting this comment letter before the September 1, 2010 deadline in order to participate in FASB’s public roundtables in October 2010.

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The CCMC supports FASB's objective to simplify and improve financial reporting for financial instruments. However, the CCMC believes the Proposal establishes a path contrary to that objective by adding complexity and confusion in financial reporting because:

- 1. The Proposal fails to achieve convergence because of serious, potentially irreconcilable fundamental differences between FASB and the International Accounting Standards Board ("IASB");**
- 2. The Proposal creates classification and measurement systems that fail to accurately reflect an entity's business model;**
- 3. The Proposal produces unnecessary complexity in the measurement and reporting of core deposits;**
- 4. While the hedging proposal has improvements over current accounting practices, the scope of potential economic activity itself remains unsettled;**
- 5. The current system of equity method accounting should be maintained; and**
- 6. The Proposal fails to provide an adequate cost benefit analysis.**

Accordingly, the CCMC strongly urges the FASB to reconsider the substance of the Proposal in accordance with the comments in this letter. Our specific concerns are discussed in detail below.

I. The Proposal Fails to Achieve Convergence

The CCMC has been a strong supporter of a single global accounting standard and has supported efforts to improve standards through the convergence of U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS"). However, FASB and IASB are offering competing proposals, thereby creating divergence rather than achieving convergence.

This Proposal is one of several under active consideration as part of the FASB and IASB convergence projects. But, in this case, FASB and the IASB have different

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proposals that use dissimilar methodologies, best exemplified in the different approaches to the use of fair value accounting. FASB is greatly expanding fair value accounting, while the IASB is not.

Even though it is the stated intention of FASB and IASB to reconcile the proposals, the core differences in the expansion of fair value accounting and the use of amortized cost may be irreconcilable and lead to vastly different treatments and outcomes. Such a result should not to be taken lightly. In order to truly achieve a converged financial instruments standard, it would behoove FASB and IASB to resolve their differences and develop a unified proposal. While we understand that serious attempts were made for such a unified standard, if such an outcome cannot occur then all parties should be aware of that outcome before a proposal is introduced. Hoping for the best in the development of standards does not provide a foundation of certainty for users or issuers of financial reports.

As it stands, the current process will not lead to a convergence, but rather will vastly increase the complexity of financial reports, drive up costs for issuers and adversely impact investors. Accordingly, the CCMC recommends that the FASB and IASB resolve their differences and then re-expose their proposals for public comment.

II. Accounting and Reporting for Financial Assets and Liabilities

The CCMC supports the premise that accounting and reporting for financial instruments should reflect an entity's business model, but the Proposal fails to do so. If that premise were to be adhered to, the Proposal would largely retain current standards for classification and measurement of financial assets, allow reclassifications when the business model changes, and largely maintain the current requirements for impairments, rather than create a new system that does not reflect an entity's business model.

FASB is proposing new guidance for accounting and reporting for financial liabilities, whereby such liabilities would be measured at fair value, amortized cost (based on eligibility criteria), or a remeasurement amount specifically applicable to core deposit liabilities. Again, the CCMC disagrees because these changes will not accurately reflect a businesses' operating model. Significant differences in operations may exist when comparing businesses or industries. The Proposal's one size fits all

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approach fails to take these differences into account and creates a standard that will not provide investors with the information that they need to make informed decisions. Accordingly, the CCMC believes that the current guidance in GAAP should be retained.

Essentially, FASB is proposing that fair value, with all changes in fair value recognized in net income, be the default option for classification and measurement of all financial instruments – whether financial assets or financial liabilities. This again is fundamentally inconsistent with the principle that financial reporting should reflect business activity and not drive it. Accounting and reporting should reflect an entity's business model and this supports allowing the fair value option for financial liabilities, but not mandating requirements for fair value. While we recognize that the Proposal attempts to provide a measurement infrastructure for financial liabilities around the notion of creating or exacerbating asset-liability mismatching, the proposed requirements for the recognition of gains and losses due to changes in an entity's credit standing are simply problematic, per se. Moreover, they contribute to concerns over the “pro-cyclicality” of GAAP.

The CCMC is also concerned with the proposed guidance that would establish “bright-lines” for the use of amortized cost for financial liabilities.¹ This Proposal runs counter to the recommendations in the Final Report of the Advisory Committee on Improvements to Financial Reporting (“CIFiR”) to the U.S. Securities and Exchange Commission (“SEC”), which called for eliminating “bright-lines” that contribute to complexity by making financial reports less comparable. Again, this argues for retaining the current requirements, including amortized cost for financial liabilities for all companies.

From the standpoint of financial statement presentation of financial assets and liabilities, the CCMC believes that the current financial statement presentation should be maintained. Requiring a reconciliation from amortized cost to fair value on the face of the statement of financial position for financial instruments where the entity's business strategy is to hold them for collection or payment(s) of contractual cash flows (or separate presentation of changes in an entity's credit standing, excluding changes in the price of credit, for financial liabilities measured at fair value with all changes in fair value recognized in net income) adds unnecessary complexity to

¹ For example, if a liability is issued by and recorded in, or evaluated by the chief operating decision maker, as part of an operating segment for which less than 50% of the segment's recognized assets are subsequently measured at fair value or it is the liability of a consolidated entity for which less than 50% of consolidated recognized assets are subsequently measured at fair value).

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balance sheet reporting and will be a major source of confusion for users. Footnote disclosure of fair value information avoids all these problems and fulfills the needs of any users who might want to consider this information. Thus, for example, the footnotes are the appropriate place to disclose fair value information for financial assets and liabilities where the entity's business strategy is to hold them for collection or payment(s) of contractual cash flows.

III. Core Deposits

The CCMC strongly disagrees with the Proposal in regards to the treatment of core deposits. Like non-core deposits, core deposits should continue to be measured and reported at their face amount, as both are demand deposits and this reflects the contractual settlement amount, for example, the actual cash outflows that can be expected to occur. Moreover, the Board is proposing that core deposit liabilities would be remeasured each period using an entirely new approach that would only be applicable to core deposits and which is neither fair value nor amortized cost. FASB recognizes the novel and challenging nature of this guidance and has included it as among the new requirements that would be delayed for an additional four years for nonpublic entities with less than \$1 billion in total assets. However, a four-year delay in the implementation of selected provisions of the Proposal for a subset of smaller nonpublic entities does not sufficiently appreciate either the conceptual flaws or the considerable operational challenges with these aspects of the Proposal for all entities. This Proposal also runs counter to the objective of CIFIIR to reduce financial reporting complexity.

IV. Hedging and Derivatives

For hedge accounting, FASB is proposing to replace what it describes as "highly complex, quantitative-based" hedging requirements with more qualitative-based assessments; and, FASB contemplates that the Proposal will reduce current extensive documentation and quantitative analysis requirements in regards to effectiveness assessments. The CCMC appreciates the thrust of the Proposal in this regard and believe that improvements have been made.

Nonetheless, we are concerned that this Proposal precedes the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act, ("Dodd-Frank Act") which includes a number of provisions related to derivatives and hedging activities.

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First, before the passage of the Dodd-Frank Act, Chairman Barney Frank acknowledged significant ambiguities with the provisions regarding the use of derivatives by end-users and the need for a substantive corrections bill to address these issues. Additionally, Regulators are just now beginning their processes for the drafting and implementation of numerous regulations to implement this Act and additional legislation may be necessary. Because the laws and rules defining and governing how and if such economic activity can occur, the CCMC believes it is premature for the Board to propose new guidance for these activities. To avoid forcing companies to undergo implementing requirements for hedging and derivatives that may not reflect the current institutional setting and, therefore, will need revision, the CCMC recommends that the Board postpone any actions in this area until the governance of economic activity in this area is settled.

V. Equity Method Accounting

The CCMC would like to express its concern over the portion of the Proposal that provides new guidance on the criteria for equity method accounting (Topic 323). It is not clear that there is any need to change the current requirements; and, this topic is outside the scope of financial instruments (Topic 825) and derivatives and hedging (Topic 815). In addition, the new guidance itself is problematic. The Proposal would add another criterion to qualify for equity method accounting over and above significant influence, namely that the entity would need to determine that the operations of the investee are related to the entity's consolidated business. This requirement is not even used for consolidation accounting and reporting and it would have the end result of sweeping a wide variety of other arrangements that are not financial instruments into fair value accounting (with changes in fair value recognized in net income each reporting period). Importantly, this is again inconsistent with the overarching premise that accounting and reporting should reflect an entity's business model.

VI. Cost Benefit Analysis

CIFiR recommended a cost benefit analysis in the development of new standards and indeed such analysis is commonly required in the development of regulations. While FASB states that it conducted such an analysis, the lack of transparency surrounding whom FASB contacted for such a study calls into question the validity of the assertions made in the proposal.

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FASB states that it contacted 100 users of financial statement users to determine if the benefits outweighed the costs.² Therefore, it is unclear if issuers were consulted or if a serious study of costs was ever undertaken.

As we have previously stated,³ FASB cannot and should not consider the costs and benefits of its individual proposals in a vacuum. Companies are facing a tidal wave of new accounting and disclosure-related requirements, each of which will carry increased costs. There is a finite limit on the total amount of additional cost attributable to new accounting and disclosure obligations that American businesses can absorb without harming our economic recovery. FASB should consider this overall burden on companies in making its cost-benefit determination – before changing the standards and imposing any new, different, and additional requirements in accounting for financial instruments, derivatives, and hedging. Accordingly, the CCMC recommends that FASB provide a cost-benefit analysis of the Proposal.

Conclusion

In conclusion, the CCMC supports the premise that accounting and reporting for financial instruments should reflect an entity's business model. However, as discussed in this letter, the CCMC is concerned that, in a number of areas, FASB's proposed requirements are inconsistent with this premise and should be reconsidered. In addition, the CCMC encourages FASB and IASB to resolve their differences, in accordance with the comments we have provided, before re-exposing their proposals for public comment.

The CCMC also notes that FASB intends to engage in field testing and we applaud these proactive efforts and suggest that they be as robust as possible to better understand and adjust standards before they are finally implemented. In turn, the results of the roundtables and field testing should be used to reconsider and revise the proposal for re-exposure. The CCMC would be pleased to work with FASB to facilitate such field testing and outreach efforts

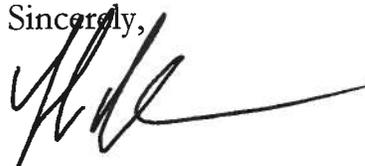
² *Accounting for Financial Instruments (Topic 825) and Revisions to the Accounting for Derivative Instruments and Hedging Activities (Topic 815)*, Page 176

³ See August 11, 2010 letter from the U.S. Chamber of Commerce to the FASB on *Proposed Accounting Standards Update, "Disclosure of Certain Loss Contingencies"* (File Reference No. 1840-100).

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As always, the CCMC is willing to discuss these issues with FASB in more detail to assist in the development of accounting standards that benefit all users of financial statements.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tom Quadman', with a long horizontal flourish extending to the right.

Tom Quadman