



September 1, 2010

Mr. Russell G. Golden, Technical Director
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Via Email to director@fasb.org

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Re: File Reference No. 1810-100

Dear Mr. Golden:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*, and we support the Board's efforts, in conjunction with the IASB, to revise and improve their respective standards on accounting for financial instruments.

Below we have provided general comments on the proposed Update, as well as responses to the specific questions in the proposal. We chose to respond to certain of the questions for users, in addition to the questions for all respondents and for preparers and auditors, where we believed our responses would provide useful input to the Board. We have omitted those questions for users that we did not respond to.

General comments

Convergence

We believe that it is important that the FASB and the IASB make progress toward a converged standard on accounting for financial instruments. Divergence in the key areas of measurement categories, credit impairment, and hedging calls into question the Boards' resolve in reaching a converged standard. In addition, we are concerned that not reaching a converged standard for financial instruments will significantly affect the Boards' ultimate goal of a single set of high quality globally accepted accounting standards.

Measurement categories

We believe that the financial instruments guidance should include two measurement categories, similar to IFRS 9, *Financial Instruments*: (1) fair value with changes in fair value recognized in earnings and (2) amortized cost. While we agree that presenting both fair value and amortized cost would provide decision-useful information to users, we believe that for most financial instruments it will be prohibitively costly to do so and that fair value estimates for such financial instruments would require significant judgment and introduce an unacceptable level of

imprecision into the statement of financial position and the statement of comprehensive income. For example, measuring most loans and financial liabilities at fair value with changes in fair value recognized in other comprehensive income would require the extensive use of models that rely significantly on unobservable inputs.

Additionally, it is our view that financial liabilities should be measured at fair value only if (1) they are incurred for trading purposes, (2) they are derivatives, or (3) if an entity elects measurement at fair value to significantly reduce a measurement attribute mismatch. We believe that the latter of these circumstances exists if measurement of a financial liability at fair value would significantly reduce a measurement attribute mismatch relative to recognized financial assets measured at fair value. It is our view that an entity should only be permitted to measure a financial liability at fair value to address a measurement attribute mismatch if the change in fair value of the financial liability, including changes in credit risk, would correlate with the change in fair value of recognized financial assets. For example, a measurement attribute mismatch might exist for financial liabilities issued by certain consolidated special purpose entities because their fair values would be impacted by the same factors, including credit risk, that impact the fair value of financial assets in a consolidated entity.

If the two Boards are not able to agree on measurement categories for financial instruments, then we believe it is critical that the FASB's criteria for measurement at fair value with changes in fair value recognized in other comprehensive income be consistent with the IASB's criteria for measurement at amortized cost. Such a framework would provide greater comparability between information on financial instruments reported under U.S. GAAP and IFRS, and would help set the stage for future convergence.

Equity method

We do not agree with the proposed amendment to require additional criteria for investments to be eligible for the equity method of accounting. It is our view that the addition of a criterion that the operations of an investee be considered related to the investor's consolidated operations would introduce operational difficulties in determining whether an investment must be accounted for under the equity method without sufficient benefit. We believe that an investor's ability to significantly influence the activities of an investee is the key criterion in determining whether application of the equity method is appropriate, regardless whether the investee's operations are related to those of the investor's consolidated operations.

Core deposit liabilities

We believe that core deposit liabilities should be subsequently measured at amortized cost rather than at the present value of the average core deposit amount as described in the proposal. It is our view that the proposed remeasurement approach would result in the reported amount of core deposit liabilities being impacted by elements of internally generated intangible assets, and that this would introduce unnecessary complexity in the measurement process for which the costs would exceed the benefits.

Credit impairment

Similar to our position on measurement categories, we believe that it is critical for the Boards to reach a converged credit impairment model that is operational for all entities, not just the largest financial institutions. We believe that the credit impairment model being developed by the IASB, supplemented with appropriate disclosures, would provide the most decision-useful information about credit impairments. We acknowledge that the IASB is currently working with an Expert Advisory Panel on operational challenges of applying an expected loss model and that the ultimate decisions on a credit impairment model will be significantly impacted by the workings of this group. We have commented below on the FASB's proposed credit impairment model in our responses to the questions in the proposed Update. We believe that substantial implementation guidance will be necessary to ensure that the credit impairment principles in the final standard are applied consistently.

Hedge accounting

We support the FASB's proposal to make hedge accounting more operational by permitting qualitative assessments of hedge effectiveness. However, we encourage the Board to provide implementation guidance to help entities identify circumstances where a quantitative method of assessing hedge effectiveness would be appropriate. Additionally, we believe that specific transition guidance is needed in relation to the proposed hedge accounting guidance, particularly to address situations where an entity changes from a quantitative to a qualitative method of assessing effectiveness. We also believe that entities should continue to have the ability to dedesignate a hedging relationship.

Responses to the Board's specific questions in the proposed Update

Scope

Questions for All Respondents

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?

We agree with the scope of financial instruments included in the proposed Update, except as noted in our responses to Questions 2 and 3.

Question 2: The proposed guidance would require loan commitments, other than loan commitments related to a revolving line of credit issued under a credit card arrangement, to be measured at fair value. Do you agree that loan commitments related to a revolving line of credit issued under a credit card arrangement should be excluded from the scope of this proposed Update? If not, why?

We do not agree that the scope of the proposed Update should exclude a creditor's loan commitment related to a revolving line of credit issued under a credit card arrangement but

include all other loan commitments. Loan commitments related to revolving lines of credit issued under credit card arrangements are often substantial in the aggregate and therefore we do not believe there is justification to exclude this substantial commitment from the scope of the proposed Update. Based on the proposed guidance, it appears that a fair value measurement of an outstanding balance of a credit card receivable would not consider the outstanding revolving line of credit. In other words, the proposed guidance indicates that separate units of account exist for the outstanding balance and the available credit line of a credit card arrangement.

We note that the Board's position on separate units of account is supported by the guidance in ASC 320-10-25-7, *Investments – Debt and Equity Securities* (EITF Issue 88-20, "Difference between Initial Investment and Principal Amount of Loans in a Purchased Credit Card Portfolio"). However, some hold the view that, for the purpose of measuring fair value, credit card arrangements consist of a single unit of account based on the guidance in ASC 825-10-25-11, *Financial Instruments*, which states that "a financial instrument that is legally a single contract may not be separated into parts for purposes of applying the fair value option." Further, we believe that market participants would often ascribe value to the credit card relationships in measuring the fair value of credit card arrangements. However, requiring two separate units of account would require entities to bifurcate the cardholder relationship intangible asset into a recognized asset and an unrecognized commitment. As a result, it appears that only a portion of the cardholder relationship intangible asset would be recognized.

We also noted an inconsistency between the proposed treatment of a credit card relationship and a core deposit customer relationship – the value of the former would not be recognized (or only partially recognized) while the value of the latter would be recognized under the proposed remeasurement approach.

However, we agree that a revolving line of credit issued under a credit card arrangement and held by a borrower should be excluded from the scope of the proposed Update.

Question 3: The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit-type and investment contracts should be included in the scope? If not, why?

We do not agree that deposit-type and investment contracts should be included in the scope of the proposed guidance. We do not believe that requiring an issuer to measure deposit-type and investment contracts at fair value would provide decision-useful information to users sufficient to outweigh the cost of estimating the fair value of such contracts. Please also refer to our response to Question 15.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

We do not agree with the proposed amendment to require additional criteria for investments to be eligible for the equity method of accounting. It is our view that the addition of a criterion that the operations of an investee be considered related to the investor's consolidated operations to the existing criteria for equity method accounting would introduce operational difficulties in determining whether an investment must be accounted for under the equity method without sufficient benefit. We believe that an investor's ability to significantly influence the activities of an investee is the key criterion in determining whether application of the equity method is appropriate, regardless whether the investee's operations are related to those of the investor's consolidated operations.

Questions for Users

Question 5: The proposed guidance would require financial liabilities of investment companies to be measured at fair value with changes in fair value recognized as a net increase (decrease) in net assets. Do you believe that the effect on net asset value will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why?

No, we believe that an entity should only subsequently measure financial liabilities at fair value if they are incurred for trading purposes, represent derivative liabilities, or if an entity elects measurement at fair value to significantly reduce a measurement attribute mismatch. We do not believe that requiring investment companies to measure financial liabilities at fair value would provide decision-useful information because those fair value measurements would largely require the use of models that rely on unobservable inputs. This would introduce a significant amount of judgment and imprecision into the statement of financial position and the statement of comprehensive income, and it is our view that the benefits of such a model would not outweigh its costs.

Question 6: The proposed guidance would require money market funds that comply with Rule 2a-7 of the Investment Company Act of 1940 to measure their investments at fair value rather than amortized cost. Do you believe that reporting those investments at fair value rather than amortized cost will provide decision-useful information? If yes, how will the information provided influence your analysis of the fund? If not, why?

We believe that reporting investments at fair value provides decision-useful information, although we believe that, in the case of money market funds complying with the provisions in Rule 2a-7 of the Investment Company Act of 1940, a change to a fair value reporting model would have an appreciable impact only under extreme circumstances.

Question 7: The proposed guidance would require brokers and dealers in securities to apply the proposed guidance for measuring financial liabilities, which could mean that qualifying changes in fair value would be recognized in other comprehensive income. Do you believe that this will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why?

No, we believe that an entity should only subsequently measure financial liabilities at fair value if they are incurred for trading purposes, they are derivative liabilities, or if an entity elects measurement at fair value to significantly reduce a measurement attribute mismatch. We do not believe that requiring broker dealers to measure financial liabilities at fair value would provide decision-useful information because those fair value measurements would largely require the use of models that rely on unobservable inputs. This would introduce a significant amount of judgment and imprecision into the statement of financial position and the statement of comprehensive income, and it is our view that the benefits of such a model would not outweigh its costs.

Initial Measurement

Questions for All Respondents

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

No, we believe that an entity should initially recognize all financial instruments included in the fair value through net income (FVNI) and fair value through other comprehensive income (FVOCI) categories at fair value. ASC 820-10-30-3, *Fair Value Measurements and Disclosures*, provides guidance on when the transaction price might not represent fair value; therefore, separate guidance does not appear to be necessary in the proposed Update. In particular, we believe that an entity should initially measure financial instruments that qualify for classification in the FVOCI category at fair value and recognize any difference between fair value and the transaction price in other comprehensive income. This would be consistent with the “day two” measurement approach. Please also refer to our response to Question 9.

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

For financial instruments classified as FVOCI, we do not agree that a difference between the transaction price and fair value on the transaction date should be recognized in net income if the difference relates to something other than fees or costs. Rather, we believe that an entity should initially recognize such a difference in other comprehensive income. In our view, an entity would recognize a “day one” gain or loss primarily due to different entry and exit markets

in which the entity transacts. However, we believe it would be inconsistent if an entity would be (1) permitted to recognize a day one gain or loss in net income and (2) required to assert that its business strategy is to collect or pay the related contractual cash flows rather than sell a financial asset or settle a financial liability with a third party for that asset or liability to qualify for FVOCI classification.

Also, we believe that “significant” should be removed as a qualifier because it focuses entities on transactions where they have a reason to expect the transaction price to differ from fair value. ASC 820-10-30-3 provides guidance on when the transaction price at initial recognition might not represent fair value; therefore, separate guidance does not appear to be necessary in the proposed Update. In addition, the use of “significant” raises the question of whether the evaluation should be based on something other than materiality.

It is also unclear how the Board intends the guidance in paragraphs 14 through 17 of the proposed Update to interact with the similar existing guidance in ASC 820-10-30-3. It appears that paragraph 14 of the proposed Update would require an entity to apply ASC 820-10-30-3(c), but not the other factors included in ASC 820-10-30-3.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

Yes, please refer to our responses to Questions 8 and 9.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

Yes.

Question for Preparers and Auditors

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

Please refer to our responses to Questions 8 and 9.

Subsequent Measurement

Questions for All Respondents

Question 13: The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why?

No. We agree with the framework outlined in IFRS 9. Our reasons are largely consistent with the Alternative Views included in the proposed Update. However, we disagree with the Alternative View that a quoted market price should be a criterion for determining the measurement attribute. Different entities might make different determinations about whether a quoted market price is readily available for a financial instrument, and those determinations can change over time. Further, it is unclear whether this Alternative View refers to the quoted market price of an identical instrument in an active market or would include other quoted market prices.

Although we agree that providing both fair value information and amortized cost information would provide decision-useful information to users, we believe that the cost of doing so will be prohibitive. Fair value measurements for the vast majority of loans and financial liabilities would require extensive use of models that rely significantly on unobservable inputs. Measuring loans and many financial liabilities at fair value would introduce significant judgment and imprecision into the statement of financial position and the statement of comprehensive income for these instruments.

Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

We agree with IFRS 9's use of a measurement attribute that focuses on a financial asset's contractual cash flows. Also, we do not believe that entities should be required to measure either hybrid financial assets or hybrid financial liabilities at fair value through earnings. We believe that embedded derivatives and host contracts should be accounted for using different measurement criteria unless an entity elects the fair value option. Some hybrid financial instruments have relatively insignificant embedded features that would cause the entire financial instrument to be measured at fair value through earnings under the proposed guidance.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

No.

Question 15: Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?

No, we believe that an entity should only subsequently measure financial liabilities at fair value if they are incurred for trading purposes, they are derivative liabilities, or if an entity elects measurement at fair value to significantly reduce a measurement attribute mismatch. Many users find certain adjustments to liabilities to reflect changes in their fair values counterintuitive because such adjustments increase net income when an entity's financial condition deteriorates and decrease net income when an entity's financial condition improves. Further, fair value estimates for most financial liabilities require the use of models that rely significantly on unobservable inputs, introducing significant judgment and imprecision into the statement of financial position and the statement of comprehensive income. Accordingly, we believe the cost outweighs the benefit of measuring financial liabilities at fair value.

Question 16: The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

We agree that reclassification of a financial instrument should be prohibited.

Question 17: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in cost- to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is appropriate? If not, why? Do you believe that the remeasurement amount should be disclosed in the notes to the financial statements rather than presented on the face of the financial statements? Why or why not?

No. We believe that entities should subsequently measure core deposit liabilities at amortized cost. Many users find certain adjustments to liabilities to reflect changes in their fair values

counterintuitive. We believe that many users will also find the core deposit liabilities remeasurement approach to be counterintuitive for the same reason. Additionally, the core deposit liabilities remeasurement approach would require use of models that rely significantly on unobservable inputs, introducing significant judgment and imprecision into the statement of financial position and statement of comprehensive income. We also believe that remeasuring core deposit liabilities results in those values being impacted by elements of internally generated goodwill or internally generated customer relationship intangibles. Accordingly, we believe the cost outweighs the benefit of measuring or disclosing deposit liabilities using the core deposit liabilities remeasurement approach.

We are unclear as to whether core deposit intangible assets recognized as a result of a business combination would still be required to be measured at fair value in accordance with ASC 805, *Business Combinations*, after the effective date of the proposed Update, or whether they would be initially measured in accordance with this proposed Update's core deposit liability remeasurement approach.

In addition, we have identified several issues related to the core deposit liability remeasurement approach and proposed transition guidance. Please refer to our response to Question 68.

Question 18: Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?

We believe that amortized cost should be the default measurement attribute for financial liabilities. We believe that the approach in the proposed Update for differentiating between financial liabilities subsequently measured at amortized cost, those subsequently measured at fair value with changes in fair value recognized in net income, and those subsequently measured at fair value with changes recognized in other comprehensive income is overly rules-based and will result in structuring by preparers and misunderstanding by users.

We believe that derivative financial liabilities and financial liabilities incurred for trading purposes should be recognized at fair value with changes in fair value subsequently recognized in net income. Further, it is our view that an entity should only be permitted to subsequently measure other financial liabilities at fair value through net income or through other comprehensive income if measurement at fair value would significantly reduce a measurement attribute mismatch relative to recognized financial assets measured at fair value. We believe that an entity should only be permitted to make this election if the change in fair value of the financial liability, including changes in the associated credit risk, would correlate with the change in fair value of recognized financial assets. Thus, a measurement attribute mismatch might exist for financial liabilities issued by certain consolidated special purpose entities because their fair values would be impacted by the same factors, including credit risk, that impact the fair values of financial assets in a consolidated entity.

Question 19: Do you believe that the correct financial instruments are captured by the criteria in the proposed guidance to qualify for measurement at the redemption amount for certain investments that can be redeemed only for a specified amount (such as an investment in the stock of the Federal Home Loan Bank or an investment in the Federal Reserve Bank)? If not, are there any financial instruments that should qualify but do not meet the criteria? Why?

Yes, although it is unclear why the proposed Update would supersede the specific impairment guidance in ASC 942-325-35-3, *Financial Services – Depository and Lending Investments – Other*, for investments in Federal Home Loan Bank stock. We believe that this impairment guidance should be retained due to the unique nature of this investment.

Based on Appendix C’s “Summary of Proposed Amendments to the *FASB Accounting Standards Codification*™,” it appears that the FASB has concluded that National Credit Union Share Insurance Fund deposits would meet the characteristics in paragraph 34 to be recognized at redemption value. Based on our understanding of such deposits it is unclear whether National Credit Union Share Insurance Fund deposits would meet all of the characteristics identified in paragraph 34 of the proposed Update. Further, we do not believe that the specific guidance in ASC 942-325 for National Credit Union Share Insurance Fund deposits should be eliminated due to the unique nature of the deposits.

We also believe the proposed guidance should reflect that an investment in Federal Home Loan Bank stock relates to a specific Federal Home Loan Bank, not the Federal Home Loan Bank system as indicated in paragraph 34 of the proposed Update.

Question 20: Do you agree that an entity should 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 in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?

Yes.

Question 21: The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer’s perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principal will not be returned to the creditor

(investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

No, we believe the Board should provide an exception for convertible debt and address this issue as part of the project on financial instruments with characteristics of equity.

Questions for Users

Question 25: For hybrid financial instruments that currently would require bifurcation and separate accounting under Subtopic 815-15, do you agree that recognizing the entire change in fair value in net income results in more decision useful information than requiring the embedded derivative to be bifurcated and accounted for separately from the host contract? If yes, how will the information provided be used in the analysis of an entity? If not, for which types of hybrid financial instruments do you believe that it is more decision useful to account for the embedded derivative separately from the host contract? Why?

We do not believe that entities should be required to measure either hybrid financial assets or hybrid financial liabilities at fair value through earnings. We believe that embedded derivatives and host contracts should be accounted for using different measurement criteria unless an entity elects the fair value option. Some hybrid financial instruments have relatively insignificant embedded features that would cause the entire financial instrument to be measured at fair value through earnings under the proposed guidance. Please refer to our response to Question 26.

Question 26: IFRS 9 requires hybrid financial assets to be classified in their entirety on the basis of the overall classification approach for financial assets with specific guidance for applying the classification approach to investments in contractually linked instruments that create concentrations of credit risk. Also, for hybrid financial liabilities, the IASB, in order to address the effects of changes in the credit risk of a liability, tentatively has decided to retain existing guidance that requires embedded derivatives to be bifurcated and accounted for separately from a host liability contract if particular conditions are met. Do you believe that the proposed guidance for hybrid financial instruments or the IASB's model for accounting for financial hybrid contracts will provide more decision-useful information? Why?

We believe that the IASB's model for accounting for financial hybrid contracts will provide more decision-useful information because it would allow entities to separately address (1) investments that provide credit enhancement to other investments that are contractually linked and (2) many host contracts that, in our view, are more appropriately measured at amortized cost. Further, some hybrid financial instruments have relatively insignificant embedded features that would cause the entire financial instrument to be measured at fair value through earnings under the FASB's proposal. We believe that application of the IASB's model to such instruments provides more decision-useful information.

Question 27: Do you believe that measuring certain short-term receivables and payables at amortized cost (plus or minus any fair value hedging adjustments) will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?

Yes, we believe that measuring certain short-term receivables and payables at amortized cost would provide decision-useful information. It is our view that such measurements, including fair value hedging adjustments, would be interpreted by users as an approximation of fair value, and that, if accompanied by sufficient disclosure related to an entity's accounting policies for such instruments, would provide decision-useful information in an operational and cost-effective manner.

Questions for Preparers and Auditors

Question 28: Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?

Yes, although we believe that greater effort will be required and significantly more cost will be incurred for entities to measure the qualifying changes in fair value to be reported in other comprehensive income.

Question 29: Do you believe that measuring financial liabilities at fair value is operational? If not, why?

Yes, although the majority of fair value measurements for financial liabilities would require extensive use of models that rely significantly on unobservable inputs. Measuring these financial liabilities at fair value would introduce significant judgment and imprecision into the statement of financial position and the statement of comprehensive income, and it is our view that the cost of such a model would outweigh its benefit.

Question 30: Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?

While the proposed criteria to qualify for measuring a financial liability at amortized cost are operational, we believe that the proposed approach will result in inconsistent measurement among similar entities and opportunities for entities to structure financial liabilities to meet the criteria to obtain a desired accounting treatment. Please refer to our response to Question 18.

Question 31: The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in cost-to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is operational? Do you believe that the remeasurement approach is clearly defined? If not, what, if any, additional guidance is needed?

While the remeasurement approach for core deposit liabilities is understandable, we believe that the introduction of another measurement attribute would introduce an unnecessary level of complexity in accounting for financial instruments. In addition, the proposed core deposit liabilities remeasurement approach would require use of models that rely significantly on unobservable inputs, and would introduce significant judgment and imprecision into the statement of financial position and the statement of comprehensive income. We believe the cost outweighs the benefit of applying the proposed core deposit liability remeasurement approach.

Presentation

Questions for All Respondents

Question 32: For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity's credit standing (excluding changes in the price of credit) is appropriate, or do you believe that it is more appropriate to recognize the changes in an entity's credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?

We believe that only financial liabilities incurred for trading purposes, that are derivative liabilities, or for which an entity elects measurement at fair value to significantly reduce a measurement attribute mismatch, should be remeasured at fair value. Under these criteria, we do not believe that changes in an entity's credit standing should be presented separately. Please refer to our response to Question 18.

Question 33: Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2 for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.

Although not all entities are rated, we agree with the principle in Method 1 and believe it would be more operational than Method 2.

Question 34: The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities

within an entity's industry, or should some other index, such as all entities in the market of a similar size or all entities in the industry of a similar size, be used? If so, please explain why another index would better measure the change in the price of credit.

We believe that an entity should consider the principles in ASC 820-10-35 in determining how liabilities are similar for the purpose of estimating the change in credit standing, and that the Board should not prescribe guidance in this area.

Questions for Users

Question 35: For financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income, do you believe that the presentation of amortized cost, the allowance for credit losses (for financial assets), the amount needed to reconcile amortized cost less the allowance for credit losses to fair value, and fair value on the face of the statement of financial position will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?

Yes, we believe that presentation of this information on the face of the financial statements will provide decision-useful information by allowing users to reconcile an instrument's amortized cost to its fair value. However, we do not believe that the benefit to users of having this information, for instruments that fall in this category based on the proposed guidance, outweighs the costs of measuring fair value for such instruments.

Credit Impairment

Questions for All Respondents

Question 37: Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?

No, we do not believe that the objective for originated financial assets has been clearly stated in a way that would be interpreted consistently by preparers. For originated financial assets it is unclear whether the Board is proposing an incurred loss model with a lower threshold or a form of an expected loss model that does not forecast future events or economic conditions not existing at the reporting date. It is unclear whether the phrase "does not expect to collect all contractual terms due" encompasses a probability threshold or the notion of a probability-weighted outcome.

An entity could interpret the proposal's reference to amounts "that the entity does not expect to collect" to mean that credit impairments should be recognized in the period that the entity would expect credit losses to occur for a pool of similar financial assets. As such, credit impairment would be recognized in the period a shortfall in contractual cash flows occurs within a pool of financial assets or would occur for a pool of similar financial assets.

Alternatively, if the effective interest rate for an originated financial asset equates to the contractual cash flows, and interest income is recognized by applying the effective interest rate to amortized cost, net of any allowance, an entity could interpret the proposal to require that a day one loss would be recorded on origination if an entity does not expect to collect all contractual amounts due. If a day one loss is recorded, it is unclear whether an entity would recognize that loss in net earnings or other comprehensive income. In our view, if recognition of a day one loss was contemplated in the proposal, this would have been made clearer in the proposed Update.

The examples provided do not make the objective clear given the inconsistency within the proposed Update.

Question 38: The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s).

The IASB Exposure Draft, *Financial Instruments: Amortised Cost and Impairment* (Exposure Draft on impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an impairment gain or loss.

Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

Please refer to our response to Question 37. Because it is unclear, we believe that the proposed credit impairment model requires additional examples and implementation guidance to articulate the differences between the proposed model and existing U.S. GAAP and between the proposed model and the model proposed by the IASB. We believe that the impairment model proposed by the IASB, supplemented with appropriate disclosures, would provide the most decision-useful information about credit impairment. However, any impairment model would need to be operational for all entities, not just the largest financial institutions, and that a final Update would require implementation guidance to ensure consistent application.

In addition, we believe the final Update should clarify whether, for an entity that owns an underwater debt security which it intends to sell, the credit impairment measurement would be limited to the pure credit impairment of the security (for example, due to a rating agency downgrade) or would also encompass management's intent to sell the security, which would ultimately affect the amount and timing of cash flows.

Question 39: Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?

We agree that an entity should not recognize credit impairment for changes in foreign exchange rates and note that recognition of impairment related to changes in foreign exchange rates would conflict with ASC 830, *Foreign Currency Matters*.

We believe that changes in expected prepayments should result in credit impairment because such changes would impact the timing and amount of cash flows. As an illustration, please refer to our response in Question 38 about the measurement of credit impairment for debt securities.

We agree that credit impairment should not result *solely* from a change in a variable interest rate.

Question 40: For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?

No, although as noted in our responses below, we do believe that the Board should provide further guidance or clarification as to what is meant by "over the life of the financial assets in the pool" to explain how historical loss rates would reflect cash flows that the entity does not expect to collect.

Question 41: Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?

Yes, we agree with this requirement.

We also call to the Board's attention that, for a purchased loan under ASC 310-30, *Receivables: Loans and Debt Securities Acquired with Deteriorated Credit Quality*, if an investor is unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition, the loan would be deemed impaired. However, under the proposed guidance, a purchased loan would only be deemed impaired if the investor is unable to collect all cash flows expected at acquisition. In our view, it

is unclear why this change is being made, and it appears to be inconsistent with the Board's objective of more timely recognition of credit impairment.

Question 42: If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that a credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?

Yes, we agree with this requirement.

Questions for Users

Question 43: The credit impairment model in this proposed Update would remove the probable threshold. Thus, an entity would no longer wait until a credit loss is probable to recognize a credit impairment. An entity would be required to recognize a credit impairment immediately in net income when an entity does not expect to collect all of the contractual cash flows (or, for purchased financial assets, the amount originally expected). This will result in credit impairments being recognized earlier than they are under existing U.S. GAAP.

Do you believe that removing the probable threshold so that credit impairments are recognized earlier provides more decision-useful information?

We agree that removing the probable threshold would provide more decision-useful information.

Question 44: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectibility of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on impairment proposes an expected loss approach and would require an entity to estimate credit losses on the basis of probability-weighted possible outcomes.

Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting

future events or economic conditions that did not exist at the end of the reporting period would provide more decision-useful information?

The Board acknowledges in paragraph BC197 that the price an acquirer is willing to pay for a debt instrument reflects the acquirer's estimate of credit losses over the life of the instrument and that no allowance for credit loss should be recognized at acquisition. We also believe that the consideration an entity transfers to originate a debt instrument reflects the entity's estimate of credit losses over the life of that debt instrument. In addition, both the price an acquirer pays for a debt instrument and the consideration transferred to originate a debt instrument are impacted by market participant assumptions of credit losses over the life of the instrument. As such, we believe assumptions about future events or market conditions that a market participant would consider should be part of an expected loss approach. We also believe that the impairment model proposed by the IASB, supplemented with appropriate disclosures, would provide more decision-useful information about credit impairment. However, any impairment model would need to be operational for all entities, not just the largest financial institutions, and would require implementation guidance to ensure consistent application.

Question 45: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Do you agree with that approach?

Yes, although we agree it is important to consider that an entity's estimate of cash flows it does not expect to collect over the life of the financial assets in the pool, we believe such estimates would become less reliable the further into the future the entity attempts to make projections.

In addition, it is not clear whether "over the life of the financial assets" refers to the expected life or contractual term. It is also unclear how an entity would modify the historical loss rate to reflect cash flows it does not expect to collect over the life of the financial assets in the pool, especially considering that many entities have not historically tracked such information. For example, would the application of the model require an entity to have 30 years of historical loss information for a pool of 30-year mortgages?

Questions for Preparers and Auditors

Question 46: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectibility of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on Impairment proposes an

expected loss approach and would require an entity to estimate credit losses on basis of probability-weighted possible outcomes.

Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?

We note that the Board acknowledges in paragraph BC197 that the price that an acquirer is willing to pay for a debt instrument reflects the acquirer's estimate of credit losses over the life of the instrument and that no allowance for credit loss should be recognized at acquisition. We also believe that the consideration an entity transfers to originate a debt instrument reflects the entity's estimate of credit losses over the life of that debt instrument. In addition, both the price an acquirer pays for a debt instrument and the consideration transferred to originate a debt instrument are impacted by market participant assumptions of credit losses over the life of the instrument. We believe that the consideration transferred for both an acquired financial asset and an originated financial asset incorporates market participant assumptions of probability weighted future credit losses. To the extent that market participants would consider future events and economic conditions in determining probability weighted future credit losses we believe that an entity should incorporate those into a credit impairment model. We believe that it would be inconsistent to consider market participant assumptions when acquiring or originating a financial asset but ignoring those assumptions in determining credit impairment.

We believe that the impairment model proposed by the IASB, supplemented with appropriate disclosures, would provide the most decision-useful information about credit impairment. However, any impairment model would need to be operational for all entities and would require implementation guidance to ensure consistent application.

Question 47: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Would such an approach result in a significant change in practice (that is, do historical loss rates typically reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool or some shorter period)?

As we noted in our response to Question 45, it is unclear how to interpret "cash flows that the entity does not expect to collect over the life." We believe that this guidance would represent a significant change in practice for certain loans, especially those with longer terms. We believe that when an entity evaluates loans as part of a pool of similar loans, historical loss rates may be used as a reasonable basis for estimating amounts that an entity does not expect to collect over the life of the loans in the pool. However, we believe that other measurement techniques may be useful and should therefore be allowed.

Interest Income

Questions for All Respondents

Question 48: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses.

Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?

We agree that the recognition of interest income should be affected by the recognition of credit impairments since the measurement of impairment needs to consider all contractual cash flows (both principal and interest). In other words, we agree that less interest income should be recognized when an entity does not expect to collect all contractual or expected cash flows. However, we do not believe that the measurement of interest income should be affected by the reversal of credit impairments; rather we believe that such reversal should be treated as a reversal of the provision for credit losses. We believe that the treatment of such reversals would be consistent with the treatment of any initial impairment recognized.

Further, it is unclear how an entity would determine interest income for assets that are collectively evaluated for impairment under the proposed model.

Question 49: Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?

No, please see our response to Question 48.

Question 50: The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?

Yes, we believe that the interest income recognition guidance should be the same for all financial assets. It is unclear why the amount of interest income to be recognized would be limited for financial assets in the FVOCI category, while an entity would appear to be able to continue recognizing interest income based on the contractual terms for financial assets in the FVNI category.

Question 51: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?

Please see our response to Question 37. We believe that additional implementation guidance and illustrative examples should address the removal of the probability threshold and how the recognition of credit impairment would be different under the proposed model from existing U.S. GAAP for originated financial assets.

Hedge Accounting

Questions for All Respondents

Question 56: Do you believe that modifying the effectiveness threshold from *highly effective* to *reasonably effective* is appropriate? Why or why not?

We believe it is appropriate to modify the threshold for applying hedge accounting. This modification should allow more entities to apply hedge accounting when they enter into derivative transactions to hedge economic exposures.

Under the proposal an entity may use a qualitative assessment of hedge effectiveness to demonstrate that a hedging relationship is reasonably effective and an entity would only need to use a quantitative assessment if the qualitative assessment cannot demonstrate that a hedging relationship is reasonably effective. The proposal requires a qualitative assessment to identify sources of ineffectiveness in a hedging relationship and factors that support a conclusion that the hedging relationship is nonetheless reasonably effective. We believe that the final Update should provide examples to demonstrate how an entity would qualitatively conclude that known sources of ineffectiveness will not cause a hedging relationship not to be reasonably effective.

Additionally, we believe that specific transition guidance is needed to address situations where an entity changes from a quantitative to a qualitative method of assessing effectiveness.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?

We agree with the Board's proposed guidance that only requires reassessment of effectiveness if changes in circumstances indicate that the hedge is no longer reasonably effective. Because the effectiveness threshold has been lowered, there should not be a need to require periodic assessments of effectiveness if there is no reason to believe that the hedge is not still reasonably effective.

Question 58: Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?

We believe the change in effectiveness threshold will lead to a reduction in circumstances in which hedging relationships are discontinued. Because the current effectiveness threshold can lead to an entity discontinuing the application of hedge accounting due to relatively small basis differences, we believe that many entities choose not to apply hedge accounting because a hedging relationship might become ineffective.

Questions for Users

Question 60: Do you believe that the proposed changes to the hedge accounting model will provide more transparent and consistent information about hedging activities? If yes, why and how would you use the information provided? If not, what changes do you disagree with and why?

We believe that the proposed changes will provide more transparent and consistent information about hedging activities because more entities will apply hedge accounting guidance to economic hedges that, under existing guidance, would not have been designated as accounting hedges due to the difficulty of applying the guidance.

Questions for Preparers and Auditors

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?

No, we do not foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships.

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

The determination of whether a hedging relationship may no longer be reasonably effective depends on how an entity initially developed a qualitative assessment that the hedging relationship would be reasonably effective. As we have indicated in our response to Question 56, we believe that the final Update should provide examples to demonstrate how an entity would qualitatively conclude that known sources of ineffectiveness will not cause a hedging relationship not to be reasonably effective.

Question 63: Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

We believe that an entity should continue to have the ability to dedesignate a hedging relationship. Some entities use dynamic hedging strategies that involve dedesignation of derivatives in hedging relationships and redesignation of those derivatives in new hedging relationships. Also, an entity may determine that measurement of ineffectiveness has become onerous because of changes in the hedged transactions and decide to dedesignate a hedging relationship.

If entities are not allowed to dedesignate a hedging relationship they may be forced to enter into an offsetting derivative instrument to effect a dedesignation. Requiring entities to enter into such transactions to effect a desired accounting outcome might be an unintended consequence of not allowing entities to simply dedesignate hedging relationships.

Question 64: Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?

No, we do not foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument. However, please see our response to Question 63.

Disclosures

Question for All Respondents

Question 65: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?

We believe that the proposed disclosure requirements are appropriate in areas of the proposed Update where we agree with the Board's tentative conclusions. However, it is not clear which current disclosures would be retained, and therefore we believe that additional review will be necessary once the complete disclosure package is known.

Effective Date and Transition

Questions for All Respondents

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

Yes, although we do not believe the proposed transition guidance properly addresses certain issues related to the proposed core deposit liability remeasurement approach. For example, the Board should consider the impact to an existing core deposit intangible asset upon transition. Also, we believe the Board should consider a situation in which, as part of a business combination, a negative core deposit intangible would have been recognized. Under ASC 805, the acquirer would reduce goodwill rather than recognize a negative core deposit intangible. Upon adoption of the proposed Update, it is unclear whether an entity would recognize the cumulative effect adjustment to goodwill or to retained earnings, as it would appear that the proposed guidance would not prohibit an entity from recognizing a negative value for the difference between the amortized cost and the amount determined by applying the core deposit liability remeasurement approach.

Question 69: Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than \$1 billion in total consolidated assets? If not, why?

Because we do not agree with the Board's tentative conclusions in a number of areas within the proposed Update, we do not agree that the effective date should be delayed for nonpublic entities with less than \$1 billion in total consolidated assets. The proposed deferral indicates that issues in our comment letter relating to the cost and benefit of estimating fair value for many financial assets and financial liabilities are valid for most, if not all, entities that would be significantly impacted by the proposed changes.

If the Board does maintain the proposed deferral, it would appear that certain financial institutions and others could qualify to subsequently measure financial liabilities, such as non-core deposit liabilities and Federal Home Loan Bank advances, at amortized cost during the deferral period. This may be the case if an entity has a greater proportion of loans to investments. However, we note that certain entities may be over the 50 percent threshold, as discussed in paragraph 30 of the proposed Update, if they have a greater proportion of investments to loans. In our view, only investments and derivatives should be required to apply the new classification and measurement date on a non-delayed basis.

Questions for Preparers and Auditors

Question 70: How much time do you believe is needed to implement the proposed guidance?

After the Board reaches tentative decisions on classification and measurement, credit impairment, and hedging, we believe that additional field visits should be undertaken in order to gauge effort needed to implement the changes. We believe that a minimum of eighteen months from the date of issuance to the adoption date would be needed to implement the proposed guidance. However, such an implementation period could be affected by a variety of factors outside of an entity's control including, but not limited to, the following:

- When the Board issues a final Update
- How quickly data service providers could make the necessary system changes that will likely be required by the proposed Update
- Issues associated with concurrently implementing other final Updates
- Any regulatory changes that would require additional implementation activities, such as changes due to the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the Securities and Exchange Commission's changes to Regulation AB

Question 71: Do you believe the proposed transition provision is operational? If not, why?

Yes, although please refer to our response to Question 68.

We would be pleased to discuss our comments with you. If you have any questions, please contact Mark K. Scoles, Partner, Accounting Principles Consulting Group, at 312.602.8780 or Mark.Scoles@gt.com; or Jamie Mayer, Executive Director, Accounting Principles Consulting Group, at 312.602.8766 or Jamie.Mayer@gt.com.

Sincerely,

/s/ Grant Thornton LLP