



September 30, 2010

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
Technical Director, File Ref # 1810-100

RE: Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

We appreciate the opportunity to respond to the proposed Accounting Standards Update referenced above. We recognize the challenges inherent in attempting to derive a single converged financial reporting model that will be effective in this increasingly complex economic environment and we commend the Boards efforts to that end. We do not believe the current proposal, however, achieves its stated objectives or results in more useful, transparent or relevant information. We are concerned that in seeking theoretical purity as a means of combating the complexities of the current environment, economic substance and practicality have been sacrificed.

First Data Corp is a leading provider of electronic commerce and payment solutions for merchants, financial institutions, and card issuers worldwide. First Data's portfolio of services and solutions includes credit, debit, private-label, smart and stored-value card issuing and merchant transaction processing services; fraud protection and authentication solutions; check guarantee and verification services; as well as Internet commerce.

Investment securities are a principal component of First Data's settlement assets. The Company also maintains various other investments, including equity securities, debt securities classified as available for sale, nonmarketable equity securities and other investments held for strategic purposes. First Data also utilizes certain derivative financial instruments to enhance its ability to manage risks that exist as part of its ongoing business operations. Lastly, the Company has significant borrowings. Accordingly, we have a strong interest in the outcome of the financial instruments project.

Of primary concern to us is the inability of the FASB and the IASB to achieve convergence prior to the issuance of their respective exposure documents when both standard setters have publicly committed to convergence. We acknowledge the Boards comments in the Summary of the exposure document that the effort to converge will continue but we believe this must be fully addressed in re-deliberation and that any subsequent proposals by either standard setting body must wait until full convergence has been achieved. Failure to do so in an area as critical as financial instruments suggests that either convergence may not be achievable, or worse, that new guidelines, once issued, will be subject to change in the near future either to arrive at a subsequent converged standard or upon the adoption of IFRS.

We have restricted the remainder of our comments below to those aspects of the proposal that directly impact First Data's financial reporting and with which we believe our knowledge and experience enable us to offer an informed opinion. We have refrained from commenting on areas such as the accounting for core deposits which will not directly impact First Data.

We do not believe the questions presented in the exposure document sufficiently speak to our concerns around the general concepts proposed, so our specific comments are outlined below.

1. We do not agree that designating fair value with the change in fair value going through earnings as the default measurement attribute will necessarily result in a representative depiction of an entity's involvement in certain financial instruments.

Measuring certain financial instruments at fair value with the changes in fair value included in net income (FV-NI), if they were not acquired for purposes of realizing short term gains, will increase volatility to a degree that is not reflective of the actual risks inherent in those instruments within the business model of many entities, decreasing rather than increasing decision usefulness.

Marketable equity securities

We agree that fair value is an important measurement attribute for marketable equity securities and that it should continue to be reflected in the statement of financial position but we do not agree that unrealized gains and losses should be included in net income for such securities, if they are not acquired for trading purposes, are subject to no impairment concerns, and if management has neither decided to sell nor expects to sell prior to the recovery of fair value. It would result in a level of volatility that is not relevant to the entity's cash flow expectations, for the purpose of high-lighting risks that should already be fully disclosed under current U.S. GAAP. We acknowledge the Board's view that the only way to realize the value of an equity security is to sell it since there are no contractual cash flows. However, the current guidelines for impairment considerations on marketable equity securities place a heavy emphasis on the extent and length of a decline in fair value. If appropriately applied, losses on such securities should not be significantly delayed. To reflect normal market fluctuations through net income on a security for which the business strategy is to hold long term and for which there are no impairment indicators, does not add decision usefulness. The decision useful information includes the extent of the unrealized gains and losses, the amount of the losses that have existed for an extended length of time, and an understanding of management's strategy and intent with respect to the investments, all of which we believe are sufficiently addressed by current presentation and disclosure requirements.

Marketable debt securities

We agree that treatment should vary for marketable debt securities depending on the business strategy. However, we do not think the proposed guidance is clear with respect to the business strategy criterion. In order to recognize the qualifying portion of a change in fair value in other comprehensive income, par. 21.b stipulates that "the entity's business strategy for the instrument is to *collect or pay the related contractual cash flows rather than to sell the financial asset*". This suggests that there are two possibilities: 1) a strategy to hold the instrument to maturity and collect both interest and principal cash flows or 2) a strategy to sell sometime prior to maturity. Although the interpretive guidance and the basis for conclusions seems to imply more leeway, a strict interpretation of this paragraph seems to indicate that only very infrequent sales of securities in a holding strategy portfolio could occur in order to avoid tainting the classification. It would suggest that the majority of instruments currently classified as Available for Sale would likely be classified under a strategy to sell along with trading securities.

We respectfully point out that it is a legitimate business strategy to hold marketable debt instruments on a long term basis for purposes of realizing a yield or in order to use the cash interest receipts to offset regularly required cash outflows (in other words for purposes other than the realization of short term gains) without intending to hold to maturity. Fluctuations in the business (which certainly can't be anticipated through the maturity of a 20 year instrument) may impact cash flow requirements such that management may decide to sell instruments that have been held for many years on a less than frequent but more than

occasional basis. If the correct interpretation of par. 21.b is that only those instruments that management can assert that it truly intends to hold for the collection of *all* contractual cash flows *through maturity* should be classified under a holding strategy, then we do not agree with the proposed treatment. There is a significantly higher level of market risk in a security acquired for short term trading gains than in one acquired for longer term contractual cash flows, whether or not held to maturity. In the absence of credit impairment indicators, the risk of a realized loss is substantially mitigated if management has neither decided to sell nor believes that it will more likely than not be required to sell the instrument prior to the recovery of fair value. The risk inherent in the collection of contractual cash flows diminishes as an instrument approaches its maturity date but other market factors can cause significant volatility. The impact of such volatility on an entity's net income when management has a legitimate ability and reason to believe it will not realize losses does not increase the usefulness of the financial statements. In fact, it may obscure the real risk inherent in those instruments that management knows it will not be able to hold until recovery and for which it does expect to realize losses.

Nonmarketable securities

Carrying nonmarketable equity securities at fair value when there are few or no observable inputs will result in fair value measures that are neither consistent nor comparable. We believe that the guidance in Subtopic 325-20 *Cost Method Investments* should be retained for nonmarketable equity securities, such as noncontrolled corporations and corporate joint ventures. Inherent in these types of investments is a lack of access to observable inputs which we believe will result in varying degrees of subjectivity in the valuations and, hence, a lack of comparability. We agree with the concerns raised with respect to operationality and auditability as discussed in par. BC57 and believe that these problems are difficult to overcome. Additionally, although such investments lack a maturity date and contractual cash flows, in many cases they are held on a long term basis for strategic purposes, even if they don't qualify for equity method accounting. The ensuing volatility that will result from attempting to measure an equity investment held for strategic purposes based upon infrequent, non-timely, unobservable and possibly non-objective inputs will not likely be reflective of the underlying economics of the investment for many entities. Lastly, while we agree that in the presence of an impairment indicator every effort must be made to determine the fair value of such an investment despite the lack of observable inputs, we believe that when there are no impairment indicators present, in many cases it is simply not practicable to determine the fair value on a regular basis, a situation allowed for in the current disclosure guidance for cost method investments, specifically ASC 325-20-50-1. We believe that requiring such investments to be measured at fair value with the changes in fair value included in earnings will not accomplish the Board's stated objective to improve consistency and comparability since two entities holding a nonmarketable equity security will very likely arrive at non-comparable fair value measurements. When there are no impairment indicators, presenting such investments at a fair value derived on a non-comparable and non-objective basis is less decision-useful than simply disclosing that the instrument is presented at cost (which is at least objectively verifiable), that there are no impairment indicators, and that it is impracticable to calculate the fair value. We believe this option should be retained.

Financial liabilities

We do not agree that the presentation of an entity's own debt at fair value is meaningful if the entity's future cash flows will be impacted by the contractual principal and interest payments rather than the market fluctuations (as would be the case if an entity does not intend to or is not able to re-acquire its own debt to realize the gains). When an entity's credit standing has declined, its contractual obligations to satisfy its debts do not decline accordingly. Moving away from the requirement to present an entity's actual obligations on the face of the Statement of Financial Position is a fundamental departure from the idea that liabilities should represent probable future sacrifices of economic benefits arising from present obligations as defined in the FASB's Con 6: *Elements of Financial Statements*. Additionally, the idea that changes in an entity's credit standing should inversely impact its earnings is at best confusing

and at worst misleading. We believe that amortized cost should be retained as the default measurement attribute for most liabilities other than derivatives with supplemental guidelines defining situations for which fair value is instead the more appropriate measurement attribute, such as situations where amortized cost would exacerbate an accounting mismatch.

2. We support a mixed attribute model that enables an entity to measure its financial instruments according to the attributes that are most reflective of its business strategy and the expected cash flows but we consider the *option to choose among several accounting treatments to be contradictory to the stated objectives.*

For financial instruments that meet the requirements of par. 21, the current proposal would allow an entity to *decide* whether to recognize qualifying subsequent changes in the instruments fair value in net income or in other comprehensive income. For financial liabilities that meet the requirements of par. 21 and for which the measurement at fair value would create or exacerbate a measurement attribute mismatch, the current proposal would allow an entity to *decide* whether to follow either of those two options or a third alternative to measure at amortized cost. Aside from our concerns around the appropriateness of the proposed accounting treatments for various types of financial instruments (as discussed above), we believe entities should be required to use the measurement and recognition attributes that are most appropriate rather than being allowed to select between alternatives. The most appropriate treatment can be determined based on an assessment of the instrument's characteristics, the entity's business strategy and whether a specific treatment would exacerbate an accounting mismatch. Having performed that assessment, the appropriate treatment should be prescribed. It is likely that, given options, most entities would choose those that minimize earnings volatility, but we believe that allowing entities that hold or issue similar instruments under similar business strategies to choose among several available treatment options is less likely to achieve either of the stated objectives of improved consistency or the representative depiction of an entity's involvement in financial instruments in its financial statements than the current accounting standards actually provide.

3. We do not agree with the idea of irrevocable classification of financial instruments.

As discussed above, we support a mixed attribute model that requires an entity to measure its financial instruments according to the attributes that are most reflective of its business strategy and expected cash flows but we also believe that in the event of a change in business strategy, a change in the classification and accounting treatment may be appropriate. The prohibitions in par. 23 on reclassifying an instrument between measuring at fair value with qualifying changes being recognized through other comprehensive income ("FV-OCI") and FV-NI, and in par. 29 on changing the decision whether or not to measure at amortized cost, may provide consistency from period to period with respect to how an instrument is reported, but where there has been a change in business strategy, such consistency may be at the expense of reporting in a manner relevant to how the business is being managed. We believe financial statements should be reflective of the impact of a change in business strategy. We also believe that such reclassifications should occur infrequently and that guidelines similar to those that exist today for reclassifying investments between Trading, Available for Sale, and Held to Maturity securities are necessary to ensure an adequate level of consistency. Appropriately applied, such guidelines will prevent reclassifications for the purpose of selling winners and holding losers, one of the concerns expressed by the Board.

4. We are concerned with the broad implications of the removal of the "probable" threshold for the recognition of impairments.

The concept of "probable" as originally defined in the FASB's FAS 5: *Accounting for Contingencies* was intended to reflect the future event(s) that are most likely to occur, generally resulting in the most representative depiction of an item's impact on an entity's

financial position or results of operations. This concept has been widely interpreted and used in practice over the years and we question whether recognizing impairment on an asset for which there is a risk of loss, but for which the risk is only slightly greater than remote, will result in an improved depiction of that item or whether it really just depicts a “worst case scenario”. We feel that in most cases a potential loss that is not considered probable is more appropriately addressed in the disclosure than presented in the face financial statements. Given that this is an area where full convergence has not been achieved, we respectfully request that the impacts of this change and the way that it fits into the overall accounting model be fully reconsidered by both the FASB and the IASB. We believe that a “more likely than not” threshold, similar to that used under current guidance for debt securities might result in a more representative depiction of a financial instruments impact on an entity’s financial position and results of operations.

5. If the “probable” threshold for credit impairments on financial assets for which the changes in net income will be recognized in OCI is removed, then we strongly agree that such impairments should be reversed when there is a favorable change in the cash flows expected to be collected.

If the final guidance retains the removal of the “probable” threshold for impairment recognition, we think that the frequency of overstated impairments will increase and that it would be inappropriate to disallow refinement of the impairment amount taken through earnings, including both increases and decreases, when additional information about collectability becomes available. While we are generally concerned with the increase in volatility between periods, the recognition of impairment decreases as well as increases will result in a better reflection of the events and economic conditions related to the asset, particularly those held over a long term, then could be achieved by lowering the recognition threshold for losses without a compensating ability to reverse them at a subsequent date in the face of new information or changing circumstances.

6. We do not believe the credit impairment guidance is operational as currently proposed.

It is difficult, conceptually, to separate expectations of collectability from consideration of potential future events or economic conditions. In order to develop expectations, potential cash flow outcomes must be considered, even though there may be no currently observable indicators of any of them. Furthermore, it would be difficult and even inappropriate in some situations to consider such outcomes without some reflection on future macroeconomic conditions such as expectations of movements in market interest rates. The proposal specifically requires an entity to assume that the economic conditions existing at the point of the impairment analysis will remain unchanged for the remaining life of the asset and it precludes the forecasting of future events or economic conditions that did not exist at the reporting date. While we believe that the Board is trying to make a distinction between forecasting a future event or economic condition that is *supported by current indicators or historical trends* as opposed to forecasting an event or condition for which there are *no indicators or supporting trends*, we don’t think the proposed guidance can be followed, if interpreted literally. For example, it would be difficult to reasonably assess the collectability of future cash flows of an illiquid security without considering and weighting other potential future economic events such as default by the issuer, the return of principal by the issuer prior to maturity (the likelihood of which depends in part on credit conditions), or the eventual maturity of the security, even in the absence of any indicators of the first two of those outcomes. In practice, we believe interpretation of the restriction against forecasting future events or economic conditions that do not exist at the reporting date will be highly subjective, reducing both comparability and decision usefulness. We suggest that the proposal be revised to provide guidelines for the types of forward looking information that are and are not allowable and the inclusion of illustrative examples in the interpretive guidance to further clarify.

7. We do not support the proposal to reflect credit impairments in the determination of an effective interest rate for debt instruments held for contractual cash flows.

We understand the theoretical reasoning behind adjusting the instrument's effective interest rate to reflect expected cash flows after credit losses, but we believe that the complexities inherent in the calculations will result in significant operational difficulties. The re-calculation of an effective interest rate each time the expected cash flows are subject to new information or to a change in circumstances, particularly given the potential removal of the "probable" threshold for recognizing impairments, will put a tremendous strain on the resources, processes and systems of many companies and may therefore result in an increased potential for errors. Practicability must be a consideration and we do not believe that these negatives will be offset by the benefits of the theoretical position underlying the proposal.

8. We support the reduced complexity for qualifying for hedge accounting and assessing ongoing hedge effectiveness.

We agree with the proposal to change the qualifying criteria for hedge designation from highly effective to reasonably effective, to move away in most situations from the current quantitative assessment to a more qualitative one, and to eliminate the requirement for ongoing quarterly effectiveness assessments in the absence of specific indications that the hedge relationship may no longer be effective. It has been our experience that the market fluctuations that can cause a derivative to be temporarily ineffective, resulting in de-designation, do not necessarily reflect a permanent ineffectiveness in the instruments ability to offset changes in the fair values or cash flows attributable to the underlying hedged risk. The de-designation in that situation leads to a level of volatility in the financial statements that is not decision useful. If the factors support a conclusion that a derivative instrument is expected to be a reasonably effective hedge against offsetting changes in the hedged item, and those factors do not change, we support the proposal to reduce the ongoing effectiveness testing due to the operational efficiencies and the improved level of consistency resulting from fewer de-designations and subsequent re-designations.

9. The proposed presentation requires excessive information on the face of the financial statements which we believe will decrease clarity rather than enhance it.

It is our opinion that the presentation of both fair value and amortized cost (other than in a parenthetical format), as well as reconciliations between the two, on the face of the statement of financial position for financial instruments measured using the FV-OCI measurement attribute will result in an overcrowded and possibly multi-page statement that will be confusing and may potentially decrease its decision usefulness. Likewise, for those same instruments, presenting a break-out of the qualifying changes in fair value on the face of the statement of comprehensive income raises similar concerns. Further, we do not believe that including this information on the face of the statements lessens the necessity for the user to understand the valuation methodologies, the inputs and other relevant risk considerations that would be included in the accompanying notes. We therefore see no value in shifting information regarding an alternative basis of measurement from the note disclosure to the financial statements. Financial statements are not intended to be read without the supporting notes disclosure; a comment on the face of each statement referencing the accompanying notes sufficiently informs all users of that fact. Decision-usefulness has traditionally been and should continue to be considered with respect to the entire financial statement package, inclusive of note disclosure. We do not believe that users of financial statements can be alleviated of all responsibility for understanding the rules of presentation, measurement, and disclosure, particularly given the increasingly complex economic environment.

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We appreciate the opportunity to share our views with the Board regarding the proposed Accounting Standards Update and hope to participate in further developments in this area. If you have any questions regarding the contents of this letter please contact Jeff Billat at 303.967.8339 or Jenny Laughlin at 303.967.8207 at your convenience.

Sincerely,

Jeff Billat
V.P., Global Financial Reporting/
Accounting Policy and Standards

Jenny Laughlin
Director, Accounting
Policy and Standards