

AMERICAN INTERNATIONAL GROUP, INC.



October 08, 2010

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

Re: File Reference No. 1810-100—Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

AIG appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the “Proposed Standard”). We believe the Financial Accounting Standards Board (“FASB” or “Board”) and the International Accounting Standards Board (“IASB”) (together “Boards”) should work together to produce a single high-quality standard for the accounting for financial instruments. In the Appendix to this letter we respond to certain questions raised by the Board of importance to AIG.

A summary of our most significant observations regarding the Proposed Standard is as follows. Refer to our complete responses in the Appendix for our supporting rationale.

Scope

- We agree with the scope of financial instruments included in the Proposed Standard with the exceptions of financial guarantees, life-settlement contracts, and deposit-type and investment contracts of insurance companies. We understand these instruments may be within the scope of the Boards’ joint project on insurance contracts. We suggest the Board exclude contracts that are considered to include an insurance component from the Proposed Standard to avoid the possibility of requiring premature changes in the accounting for such instruments that may be short lived and because we believe these contracts are more logically addressed holistically in the Boards’ joint insurance contracts project.

We disagree with the proposed additional criteria that must be met to apply the equity method of accounting to investments in equity securities. We fail to see the logic of applying the equity method of accounting only when the operations of the investee are related to the investor’s consolidated business, when companies are required by other generally accepted accounting principles to consolidate investees when they have a controlling financial interest, no matter the relationship of the investee’s operations to the investor’s consolidated

operations. Additionally, we believe most investments in which the investor has significant influence (with the exception of financial investors) are made for strategic purposes and, consequently, the proposed criteria would add complexity to the accounting guidance without providing a meaningful improvement in the usefulness of the resulting financial information to financial statement users.

Initial and Subsequent Measurement

- We support a mixed-measurement accounting model for financial instruments and we believe companies should be permitted to decide whether to measure a financial instrument at initial recognition 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 loans and certain securities and for certain financial liabilities).

We disagree with the Proposed Standard's prohibition from subsequently changing the initial decision. We believe changes in business strategies will occur infrequently, but if they do, management should be permitted to change the initial accounting designations made for financial instruments. We suggest that, instead of prohibiting business decisions that generally are made for legitimate reasons, the Board require prominent disclosure of such changes through, for example, roll forward of beginning and ending balances of such instruments and the related unrealized gains and losses classified in other comprehensive income, with explanations of the reasons for the changes in accounting designation if the effect is material to the company.

- We believe that, for financial statements to be of most use to financial statement users, they should present information about both fair value and historical (amortized) cost of financial instruments. However, we also believe financial statements can and should convey information about how management intends to realize or settle its financial assets and financial liabilities (i.e., management's business strategy). We believe it makes little sense and, in fact, obscures important information, to measure at fair value financial instruments that management has no need or intention to realize or settle at the balance sheet date. However, we would support a requirement to disclose parenthetically the fair value of such instruments.

We believe that financial instruments an insurance company intends to sell should be measured at fair value with changes in fair value reflected in income; financial instruments an insurance company may sell, but has not decided to sell, should be measured at fair value with changes in fair value recorded in other comprehensive income; and financial instruments an insurance company intends to hold for collection or payment(s) of contractual cash flows (in particular, loans) should be carried at amortized cost. Additionally, we believe it makes little sense for a company to measure (or disclose parenthetically) its own debt (and other liabilities it expects to settle at par value) at fair value, either through income or other comprehensive income.

We believe an accounting model that acknowledges the importance of presenting information about management's business strategy and how it intends to realize and settle its financial instruments (with robust parenthetical or footnote disclosure of fair value or amortized cost for all financial instruments, when not presented in the balance sheet) is superior to the model in the Proposed Standard.

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- We believe financial liabilities should be permitted to be measured at amortized cost without the need to meet any criteria. We believe most companies settle most liabilities based on the amounts contractually due, and amortized cost therefore provides the most useful information for financial statement users. We would not object to parenthetical or footnote disclosure of fair value amounts. We believe financial liabilities should be permitted to be measured at fair value when management concludes fair value is the most relevant measurement attribute for the liability (for example, when it is hedging an asset or when it is included in a trading portfolio).

Credit Impairment

- We support the overall objective of the proposed credit impairment model to introduce a single method for estimating credit losses for all financial instruments that will result in more timely loss recognition. However, we are concerned with certain aspects of the proposal. The requirement to rely only on past events and existing conditions in determining the expected future cash flows of a financial asset is inconsistent with the overall model. When developing an estimate of *future* cash flows, consideration of past events and existing conditions goes hand in hand with the use of reasonable forecasts and expected future events that represent market-participants' views.
- We believe the impairment guidance for debt securities in FASB Staff Position No. 115-2/124-2 (codified in Accounting Standards Codification Topic 320) results in proper recognition and measurement of impairment based on expected cash flows. Therefore, we suggest the Board amend the Proposed Standard to conform to the existing impairment guidance, which would consider all relevant and available information, including past events, existing conditions, and reasonable and supportable forecasts when developing the estimate of cash flows expected to be collected on a financial asset.

Furthermore, we support the use of amortized cost for certain assets, in particular for loans. Therefore, we suggest modifying the credit impairment objective to include financial assets carried at amortized cost to be subject to the impairment model.

Interest Income

- We agree with the Board that the effective yield on a financial asset should be adjusted for changes in originally-expected cash flows, similar to the existing interest income recognition model for debt securities. We do not agree, however, with the concept of the allowance for credit losses as attributable to debt securities. We do not view the proposal to create an allowance for every credit-impaired debt security rather than directly write down the instrument's carrying value for the amount of the loss to be operationally feasible nor do we believe it would provide any useful information to financial statement users. As discussed in our responses to the Credit Impairment questions, we believe the current impairment model for debt securities together with its measurement and presentation requirements is more appropriate and less complex.

Insofar as the Proposed Standard would apply to loans, whether measured at fair value with changes in fair value recognized in other comprehensive income or at amortized cost, we conceptually agree with the Board's proposal to apply the effective interest rate to the individual loan's amortized cost basis net of the credit loss allowance. However, this will result in a significant change in practice for loans and would create operational challenges.

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Further, the Proposed Standard is unclear regarding how to apply this requirement to financial assets evaluated for impairment on a pooled basis. When impairment of financial assets is determined on a pooled basis, it is not evident in the Proposed Standard whether a company is required to allocate the losses to the individual assets in the pool to measure interest income and how to perform such an allocation, if necessary.

- We believe there should be a consistent method for interest income recognition for all financial assets, regardless of their classification and measurement. Such consistency will provide useful information to both the company's management and its financial statement users.

Hedge Accounting

- We believe the reasonably-effective standard is an appropriate modification considering the overall trend to principles-based accounting. The bright lines that have developed around the highly-effective standard often cause satisfactory hedge relationships to fail merely due to temporary mechanics. As practice develops under this new guidance, we believe hedge accounting will become a more widely and effectively used tool to manage risk.

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Our responses to certain questions raised by the Board of importance to AIG are included in the Appendix to this letter. Thank you for the opportunity to present our views. Please do not hesitate to contact me at (212) 770-8997 if you have any questions or need clarification with respect to any matters addressed in this letter.

Very truly yours,

/s/Tom Jones
Director and Global Head of Accounting Policy
American International Group, Inc.

cc: Anthony Valoroso
Vice President and Chief Accounting Officer
American International Group, Inc.

APPENDIX

Scope

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 Standard with the exceptions of financial guarantees and life-settlement contracts.

The Board states, in paragraph BC23, that certain financial instruments are excluded from the scope of the Proposed Standard, including insurance (and related financial guarantees), because they are the subject of other projects on the Board's agenda. However, only certain financial guarantees are excluded from the scope of the Proposed Standard. We understand that many financial guarantees and similar instruments may be within the scope of the Boards' joint project on insurance contracts. We suggest the Board exclude financial guarantees that are considered to include an insurance component from the Proposed Standard to avoid the possibility of requiring premature changes in the accounting for such instruments that may be short lived and because we believe these contracts are more logically addressed in the Boards' joint insurance contracts project.

In paragraph BC40, the Board states that life-settlement contracts do not involve an insurable interest and the investor is not a policy holder; therefore, such contracts should be included in the scope of the Proposed Standard. AIG disagrees with this notion because the underlying economics of life-settlement contracts do not differ on the basis of having an insurable interest. For example, a company may have had an insurable interest in an executive's life at the time the company purchased the life insurance contract, but would no longer have an insurable interest following that executive's retirement. The Proposed Standard would seemingly require a different basis of accounting to be applied to the contract upon retirement, which we believe is inappropriate. Additionally, we believe it is incorrect to state that investors in life-settlement contracts are not policy holders. In our experience, investors in life settlement contracts may be the direct policy holder or may be the beneficial indirect owner of the policy, through a trust or other vehicle the investor may consolidate under US GAAP.

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 agree that deposit-type and investment contracts of insurance companies are financial instruments and therefore qualify for consideration in the scope of the Proposed Standard. In our view however, it would be more appropriate to consider the accounting for these instruments holistically within the Board's comprehensive insurance contracts project. If these contracts are included within the scope of the Proposed Standard, we are concerned the accounting for these instruments would be changed from current practice and possibly changed again shortly thereafter as the Board reconsiders them within the comprehensive insurance contracts project.

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 the equity method of accounting? If not, why?

We disagree with the proposed additional criteria that must be met to apply the equity method of accounting to investments in equity securities. We fail to see the logic of applying the equity method of accounting only when the operations of the investee are related to the investor's consolidated business, when companies are required by other generally accepted accounting principles to consolidate investees when they have a controlling financial interest, no matter the relationship of the investee's operations to the investor's consolidated operations. It was only in 1987 (Statement of Financial Accounting Standards No. 94, *Consolidation of All Majority-Owned Subsidiaries*) that the Board removed the "non-homogenous" exception to consolidation under Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. In that standard, the Board concluded that "the increasingly diverse nature of business activity, and of business enterprises themselves, makes the fact that the business activity of a subsidiary is different from that of its parent and other subsidiaries an insufficient reason to exclude it from consolidation. The managerial, operational and financial ties that bind an enterprise into a single economic unit are stronger than the differences between its lines of business." Additionally, we believe most investments in which the investor has significant influence (with the exception of financial investors) are made for strategic purposes and, consequently, the proposed criteria would add complexity to the accounting guidance without providing a meaningful improvement in the usefulness of the resulting financial information to financial statement users.

However, if the Board proceeds to require these criteria to be met to apply the equity method of accounting, we suggest the Board clarify the meaning of "operations of the investee are related to the entity's consolidated business." Global (and national) companies often deliberately operate in a significant number of unrelated businesses. These businesses may comprise significantly different levels of assets, revenues, and operating profit of the consolidated business, and the mix of this composition may change from year to year or over short- or long-term time horizons. This raises the questions of the meaning of "related" and whether the "related" test would be a one-time test applied when the investor first becomes involved with the investee or whether it would be an ongoing test. Therefore, to avoid diversity in the application of the proposed criteria, we suggest the Board provide principles-based guidance about when the operations of the investee are related to the investor's consolidated business and clarify if the test is intended to be one time or ongoing to enhance the consistency of application of the proposed criteria.

Initial Measurement

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

We generally agree with the proposed initial measurement principles for financial instruments. However, as illustrated in paragraphs IG17 to IG19, the proposed guidance is ambiguous with respect to the accounting for premiums and discounts on financial assets for which fair value changes will be reported in other comprehensive income. The example in paragraphs IG17 to IG19 represents that the fee charged to the borrower, which creates a discount on the loan, is deferred in other comprehensive income. Paragraph 78 also explains that loan origination fees and direct loan origination costs are initially deferred in other comprehensive income. Under

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current guidance, loan origination fees are deferred in contra accounts to the loan's recorded par balance with the net of these accounts equaling the loan's transaction price. The Proposed Standard could be interpreted to require a loan to be recorded solely at its transaction price with the subsequent amortization (accretion) of premiums (discounts) recognized through adjustments to other comprehensive income, because that is where they are initially deferred as stated in paragraph 78. However, the existing disclosure requirements for premiums and discounts continue to be required and are enhanced, as described in paragraph 91.

We recommend the final standard remove the reference to deferred in other comprehensive income in paragraphs 78 and IG19 and instead require that loan origination fees and direct loan origination costs be deferred in contra or adjunct accounts, which we believe is the intent of the Proposed Standard. If the Proposed Standard intends to change where premiums and discounts are classified, we recommend the Proposed Standard be reconsidered. Because loan origination fees and direct loan origination costs are related to the contractual cash flows of the financial instrument and are reported as interest, we believe a preferable financial statement presentation of loan origination fees and direct loan origination costs is to continue to report them as contra accounts to the financial instrument's par value and not associate the amounts with other comprehensive income.

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?

We agree with the Proposed Standard. In particular, we believe requiring only "significant" differences to be recognized in income—provided 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 company would transact—will significantly simplify the analytical and operational aspects of accounting for the initial recognition of financial instruments.

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?

We agree there should be a single initial recognition principle because we see no reason for different initial recognition measurement principles based on how the instrument subsequently will be measured. We believe requiring only "significant" differences between the transaction price and fair value to be recognized in income for financial instruments for which qualifying changes in fair value are recognized in other comprehensive income—provided 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 company would transact—will significantly simplify the analytical and operational aspects of accounting for the initial recognition of financial instruments.

The business strategy for financial instruments for which changes in fair value are recognized in net investment income generally is not primarily based on the underlying cash flows of the

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financial instrument so that recording the instrument immediately at fair value, assuming it differs from the transaction price, would not misrepresent the financial impact of the financial instrument to the company's operating results.

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?

We agree that transaction fees and costs should be immediately expensed in income for financial instruments accounted for at fair value when changes in fair value are recognized in income. This is a natural consequence of measuring a financial instrument at fair value with subsequent changes in fair value recognized in income. We also agree that transaction fees and costs should be deferred and amortized as an adjustment of the yield for financial instruments measured at fair value when qualifying changes in fair value are recognized in other comprehensive income and for financial instruments carried at amortized cost.

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?

We believe the proposed guidance regarding determining whether there is a significant difference between the transaction price and fair value generally will be operational. However, making the determination will be more judgmental and operationally challenging for financial instruments classified in Levels II and III of the fair value hierarchy and will present the same types of challenges experienced during the economic conditions of 2009 and 2010.

Subsequent Measurement

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

We believe that, for financial statements to be of most use to financial statement users, they should present information about both fair value and historical (amortized) cost of financial instruments. However, we also believe financial statements can and should convey information about how management intends to realize or settle its financial assets and financial liabilities (i.e., management's business strategy). We believe it makes little sense and, in fact, obscures important information, to measure at fair value financial instruments that management has no need or intention to realize or settle at the balance sheet date. However, we would support a requirement to disclose parenthetically the fair value of such instruments.

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For example, the business model of a life insurance company is to accept policyholder funds in exchange for promising to return those funds, with a return, often years in the future. Life insurance companies generally invest those funds in assets with maturities that match the maturities of the obligations to policyholders. Contrast this business model to that of an investment bank whose business model is profiting from short-term trading of financial instruments. We believe amortized cost (net of impairment and with parenthetical disclosure of fair value) generally provides the most meaningful information to users of the insurance company's financial statements while fair value (with parenthetical disclosure of amortized cost) provides the most meaningful information to users of the investment bank's financial statements. Therefore, we believe that financial instruments an insurance company intends to sell should be measured at fair value with changes in fair value reflected in income; financial instruments an insurance company may sell, but has not decided to sell, should be measured at fair value with changes in fair value recorded in other comprehensive income; and financial instruments an insurance company intends to hold for collection or payment(s) of contractual cash flows (in particular, loans) should be carried at amortized cost. Additionally, we believe it makes little sense for a company to measure (or disclose parenthetically) its own debt (and other liabilities it expects to settle at par value) at fair value, either through income or other comprehensive income.

We believe a purely fair value accounting model would obscure important information about how management intends to realize and settle its financial assets. We believe an accounting model that acknowledges the importance of presenting information about management's business strategy and how it intends to realize and settle its financial instruments (with robust parenthetical or footnote disclosure of fair value or amortized cost for all financial instruments, when not presented in the balance sheet) is superior to the model in the Proposed Standard.

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?

We agree with the proposed guidance and do not believe any other fair value changes should be recognized in net income for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income.

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

We do not believe the subsequent measurement principles should be the same for financial assets and financial liabilities. Refer to our response to Question 13.

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 support a mixed-measurement accounting model for financial instruments and we believe companies should be permitted to decide whether to measure a financial instrument at initial recognition 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 loans and certain securities, as discussed in our response to Question 13, and for certain financial liabilities). However, we disagree with the Proposed Standard's prohibition from subsequently changing the initial decision.

We believe changes in business strategies will occur infrequently, but if they do, management should be permitted to change the initial accounting designations made for financial instruments. When management changes business strategies, it generally is possible to realize or settle financial assets or liabilities in response to those changes. However, there may be valid economic reasons not to realize or settle transactions; therefore the ability to re-designate the measurement basis of financial instruments should be permitted. That is, the accounting consequences of a transaction should not drive the business decision related to a transaction (i.e., realizing or settling a financial instrument because of a change in business strategy when it does not make economic sense to do so).

We believe changes in business strategies, and therefore changes in the measurement basis and accounting designations of financial instruments, will be infrequent. We disagree with the requirement in paragraph 23 of the Proposed Standard that prohibits subsequently changing a decision made at initial recognition to recognize qualifying subsequent changes in the financial instrument's fair value in other comprehensive income. We suggest that, instead of prohibiting business decisions that generally are made for legitimate reasons, the Board instead require prominent disclosure of such changes through, for example, roll forward of beginning and ending balances of such instruments and the related unrealized gains and losses classified in other comprehensive income, with explanations of the reasons for the changes in accounting designation.

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 financial liabilities should be permitted to be measured at amortized cost without the need to meet any criteria. We believe most companies settle most liabilities based on the amounts contractually due, and amortized cost therefore provides the most useful information for financial statement users. We would not object to parenthetical or footnote disclosure of fair value amounts. We believe financial liabilities should be permitted to be measured at fair value when management concludes fair value is the most relevant measurement attribute for the liability (for example, when it is hedging an asset or when it is included in a trading portfolio).

As we pointed out in our response to Question 16, the accounting consequences of a transaction should not drive the business decision related to a transaction (i.e., companies should not be compelled to enter a hedging transaction to offset the income or other comprehensive income effects of measuring liabilities at fair value when those liabilities are expected to be settled based on contractual amounts due).

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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?

We believe evaluating the need for a valuation allowance on deferred tax assets raises issues beyond those related to debt instruments measured at fair value with qualifying unrealized depreciation recognized in other comprehensive income. For example, deferred tax assets arise from other transactions recorded in other comprehensive income including cash-flow hedges (which will reverse with the passage of time if the derivative is held to maturity), foreign currency translation adjustments, and retirement plan liabilities. We believe a reconsideration of the accounting for valuation allowances on deferred tax assets is beyond the scope of the Proposed Standard and must only be assessed as part of a holistic reconsideration of assessing the realizability of deferred tax assets. Accordingly, we disagree with the guidance in the Proposed Standard related to the accounting 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.

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?

We believe the accounting for the conversion attributes of convertible debt are more appropriately addressed in the context of the Board's project on financial instruments with characteristics of equity than the financial instruments project.

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?

We do not agree with the use of a fair value model for those financial instruments that a company intends to hold for collection or payment of contractual cash flows (i.e., loans and a company's own debt). However, for financial instruments appropriately carried at fair value, we believe the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income will not present significant implementation challenges.

As discussed in our response to Question 13, we disagree with the requirement in paragraph 23 of the Proposed Standard that prohibits subsequently changing a decision made at initial recognition to recognize qualifying subsequent changes in the financial instrument's fair value in other comprehensive income. We suggest that, instead of prohibiting changes to business

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strategy decisions that generally are made for legitimate reasons, the Board instead require prominent disclosure of such changes through, for example, roll forwards of beginning and ending balances of such instruments and the related unrealized gains and losses classified in other comprehensive income, with explanations of the reasons for the changes in accounting designation, when material to the company.

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

Refer to our response to Question 18. While we believe financial liabilities should be permitted to be measured at amortized cost without the need to meet any criteria, we also believe companies should be permitted to measure financial liabilities at fair value to allow for matching of certain liabilities with financial assets carried at fair value. We believe measuring financial liabilities at fair value will not present significant implementation challenges. However, we are concerned with the counterintuitive results of recognizing changes in fair value in income due to changes in a company's own credit risk when those gains or losses are unlikely to be realized. We do not believe this results in transparent or useful financial information.

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

Refer to our responses to Questions 18 and 29.

Presentation

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 do not believe companies should be required to measure financial liabilities at fair value. Instead, we believe amortized cost is a more relevant measurement, particularly when management intends to repay the liability at par. However, if the Board adopts such a requirement, we believe changes in a company's credit standing, inclusive of changes in the price of credit, should be recognized in other comprehensive income rather than net income. We believe the effect on financial liabilities of changes in a company's own credit spread is useful for decision making purposes only when the liability is part of a trading portfolio to realize short term profits. We also believe it is counterintuitive to record a credit in earnings related to the erosion of a company's debt when such credits may never be realized because the company intends to settle the debt at par.

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

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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.

We are concerned that the Board is proposing methods to measure the fair value of a company's liabilities, which we believe is beyond the scope of setting accounting standards, and we do not support either method proposed. We believe companies should be permitted to develop a reasonable method that is consistently applied and fully disclosed. The proposal presumes a company can bifurcate credit spreads related to its specific default risk premium from the price of credit, or distinguish the general changes in the price of credit within a particular sector or industry from the changes in its own credit standing, with meaningful precision. Such an exercise would be overly subjective and therefore would not be observable by a market participant.

With respect to Method 1, an inherent flaw in the proposal seems to ignore a lag in the credit ratings assessed by the rating agencies, which could differ from the market's view of a particular company's credit standing. Regarding Method 2, a weakness we observe is the inconsistency that could occur as a company tries to assess the correlation of debt issued by its peers within a particular industry, but whose underlying products vary significantly. In fact, debt issued by companies with the same credit rating is often not correlated due to differences in their product mix or other factors. This could impair comparability for financial statement users. In addition, we believe the examples provided to demonstrate the application of the proposed methods are oversimplified and do not present a realistic valuation perspective. For instance, we believe it would be difficult for a company to determine how the portion of an increase of a floating rate debt it issued was attributed to the floating rate versus an increase in the credit spread under the proposed methods.

We believe the objectives of the Board and the needs of financial statement users would be satisfied if the proposed disclosure requirements for financial liabilities specify that companies disclose risk premiums, including total credit risk, and other spread factors above the benchmark risk-free rate, without the added complexity of bifurcating the credit spread.

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 this 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.

Refer to our response to Question 33. We do not believe it is necessary for the Board to prescribe any method to compel constituents to bifurcate the credit spreads of financial liabilities, nor do we believe it is appropriate to look to other companies. We also are not aware of any existing index that would facilitate such an exercise.

Credit Impairment

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?

We support the overall objective of the proposed credit impairment model to introduce a single method for estimating credit losses for all financial instruments that will result in more timely

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loss recognition. However, we are concerned with certain aspects of the proposal. The requirement to rely *only* on past events and existing conditions in determining the expected future cash flows of a financial asset is inconsistent with the overall model. When developing an estimate of *future* cash flows, consideration of past events and existing conditions goes hand in hand with the use of reasonable forecasts and expected future events that represent market-participants' views.

We believe the impairment guidance for debt securities in FASB Staff Position No. 115-2/124-2 (codified in Accounting Standards Codification Topic 320) results in proper recognition and measurement of impairment based on expected cash flows. Therefore, we suggest the Board amend the Proposed Standard to conform to the existing impairment guidance, which would consider all relevant and available information, including past events, existing conditions, and reasonable and supportable forecasts when developing the estimate of cash flows expected to be collected on a financial asset. Further, the existing impairment guidance considers a company's intent or requirement to sell in its impairment analysis. We believe the Proposed Standard should include the intent-to-sell criteria as well, to accommodate the sales at a loss of financial assets classified at fair value with changes in fair value recognized in other comprehensive income without the risk of potentially tainting a company's stated business strategy.

Furthermore, consistent with our responses to Questions 16, 18, and 29, we support the use of amortized cost for certain assets, in particular for loans. Therefore, we suggest modifying the credit impairment objective to include financial assets carried at amortized cost to be subject to the impairment model.

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: Amortized 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?

We do not believe it is appropriate to recognize a credit impairment loss in net income upon origination or purchase of a financial asset, whether an individual or pooled method for evaluating credit impairment is used. We believe that under the Proposed Standard recognizing the initially-expected credit losses in the first period after initially recognizing the financial asset will result in premature recognition of credit losses (while the proposed IASB model is intended

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to avoid prematurely recognizing interest income) and conflicts with the fundamental matching principle because credit losses would not be recognized consistently with the interest income on those instruments.

Consequently, we suggest the Board amend the Proposed Standard to conform to the existing impairment guidance for debt securities, under which adverse changes in expected cash flows result in periodic credit impairment loss recognition and such losses are not recognized upon origination or purchase.

Refer to our response to Question 42 for our views on the proposed requirement to evaluate financial assets for credit impairment using a pooled method.

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 generally 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. While declines in foreign exchange rates are not considered credit losses, we believe it is appropriate for a company to apply its normal impairment policy to foreign currency declines.

With respect to the changes in expected prepayments or changes in a variable interest rate, we agree these factors should not result in the recognition of credit impairment. However, it appears the Proposed Standard would not permit the use of forward curves for expected changes in variable interest rates when estimating future expected cash flows for variable-interest-rate instruments. Consistent with our overall comments on the proposed credit impairment model, we are concerned with the use of only static rates for these instruments. We believe forward interest rate curves represent reasonable and supportable forecasts used by market participants. Accordingly, the use of spot interest rates for variable-interest-rate instruments would create inconsistent results between market observable data and a company's evaluation of expected cash flows.

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?

We do not believe a specific method should be prescribed for determining historical loss rates for financial assets evaluated in a pool, because companies should be permitted to use judgment in developing estimates. Further, consistent with our response to Question 37, we believe management should be permitted to rely on reasonable and supportable forecasts in addition to past events and existing conditions when evaluating financial instruments for impairment, whether using an individual or pooled method.

Also, we do not believe the historical-loss-rates method should be emphasized as the only available alternative for determining credit impairment on assets evaluated in a pool. Refer to our response to Question 42 for our views on the proposed requirement to evaluate financial assets for credit impairment using a pooled methodology.

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

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that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?

We agree that if a company subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the company should recognize no immediate gain in net income but should adjust the effective interest rate so the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset.

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?

We disagree with a *requirement* that an individual asset be assessed with other assets to determine whether a credit impairment exists. We believe a company should be allowed to *consider* assessing such an asset together with other similar financial assets for collective impairment.

Further, certain assets in our portfolios (e.g., commercial loans, mortgage- and asset-backed debt securities) are managed on an individual basis. Such assets have unique characteristics—terms, collateral structures, geographic locations and guarantee arrangements, to name a few—and therefore do not allow for a pooled methodology. There may be historical data that generally applies to various asset categories; however it is not always applicable to the individual assets within those asset types.

With this in mind, we recommend the Board revise the guidance to allow companies to use judgment in determining which method is more appropriate in measuring impairment for individually-evaluated or pooled assets. Further, the method(s) and the rationale should be disclosed in the company's financial statement footnotes.

Refer to our response to Question 40 for our views on the proposed requirement to measure the amount of the credit impairment by applying the historical loss rate and to our response to Question 38 for our overall view on the proposed impairment measurement model.

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 collectability 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

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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?

Refer to our response to Question 37. We disagree that a company should assume that economic conditions existing at the reporting date would remain unchanged in determining whether credit impairment exists. The restriction to rely only on past events and existing conditions in determining the expected future cash flows of a financial asset is not consistent with the overall impairment model. Because a company is required to estimate future cash flows, the distinction whether these estimates are based either on past events and existing conditions or on reasonable forecasts and expected future events may be difficult or even impossible in some instances to achieve in practice.

We believe the impairment guidance for debt securities issued by the Board in 2009 results in proper recognition and measurement of impairment based on expected cash flows. This model is more operational and widely perceived as appropriate. We suggest the Board amend the Proposed Standard to conform to the existing impairment guidance and allow companies to consider all relevant and available information, including past events, existing conditions, and reasonable and supportable forecasts when developing the estimate of cash flows expected to be collected on a financial asset.

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)?

Refer to our response to Question 42. We do not believe a company should be required to evaluate its financial assets for impairment using a pooled approach but, instead, should be allowed to use judgment in determining whether an individual basis or pooled method is more appropriate in measuring impairment on the financial assets. The Proposed Standard would result in significant change in practice and substantial operational challenges if our investments in debt securities carried at fair value with changes in fair value recognized in other comprehensive income would be required to be evaluated for impairment in pools.

However, based on our understanding of the language in paragraph BC 181, we do not believe the Board intended for debt securities to be evaluated in a pool given that they will “more often have unique risk characteristics that will result in their being evaluated individually.” Therefore, we suggest the Board clarify the individual versus pooled requirement as it would pertain to debt securities because the language in the Proposed Standard seems to contradict the Board’s rationale documented in the Basis for Conclusions.

We support the current impairment guidance for debt securities, which allows a company to use its best estimates in determining the collectability of expected future cash flows using past events, current conditions and forward-looking information that is currently available and objectively verifiable. Therefore, we believe the Proposed Standard should be amended to allow companies to measure impairment based on adverse changes in the expected cash flows.

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Further, refer to our response to Question 40 for our views on the proposed requirement to measure the amount of the credit impairment by applying the historical loss rate.

Interest Income

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 with the Board that the effective yield on a financial asset should be adjusted for changes in originally-expected cash flows, similar to the existing interest income recognition model for debt securities. We do not agree, however, with the concept of the allowance for credit losses as attributable to debt securities. We do not view the proposal to create an allowance for every credit-impaired debt security rather than directly write down the instrument's carrying value for the amount of the loss to be operationally feasible nor do we believe it would provide any useful information to financial statement users. As discussed in our responses to the Credit Impairment questions, we believe the current impairment model for debt securities together with its measurement and presentation requirements is more appropriate and less complex.

Insofar as the Proposed Standard would apply to loans, whether measured at fair value with changes in fair value recognized in other comprehensive income or at amortized cost (as expressed in our views in our responses to Questions 13 and 16), we conceptually agree with the Board's proposal to apply the effective interest rate to the individual loan's amortized cost basis net of the credit loss allowance. However, this will result in a significant change in practice for loans and will create operational challenges.

Further, the Proposed Standard is unclear regarding how to apply this requirement to financial assets evaluated for impairment on a pooled basis. When impairment of financial assets is determined on a pooled basis, it is not evident in the Proposed Standard whether a company is required to allocate the losses to the individual assets in the pool to measure interest income and how to perform such an allocation, if necessary.

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?

We do not agree that the difference between contractual interest and accrued interest should result in an increase to the allowance for credit losses. Consistent with our responses to Questions 38 and 48, we suggest the Board amend the Proposed Standard to remove the credit loss allowance concept as it pertains to debt securities and have the impairment recorded directly against the instrument's amortized cost. Accordingly, any excess amount of contractual interest due over interest accrued should be recognized by direct adjustment to the amortized cost using the effective yield method prospectively, similar to the existing method used for debt securities.

Further, consistent with our views expressed in our response to Question 48, we do not believe the mechanics of the interest income recognition relative to the credit loss allowance are clearly

explained in the Proposed Standard should a company be required to apply such guidance to a pool of financial assets. It is not evident how to arrive at an effective interest yield for a pool.

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?

We believe there should be a consistent method for interest income recognition for all financial assets, regardless of their classification and measurement. Such consistency will provide useful information to both the company's management and its financial statement users.

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?

If the proposed credit impairment and interest income recognition models are retained as proposed in the final standard, we suggest the Board provide additional guidance and several comprehensive examples to clarify how these requirements should be applied. Specifically, we believe it would be useful if such examples could demonstrate the interest income recognition for purchased and originated assets evaluated on a pooled basis, including determination of an effective yield for the pool. Further, it would be helpful if these examples included the guidance on historical loss rate determination for a pool.

Additionally, we believe it would be useful to have a comprehensive example for a purchased individual structured debt security (e.g., RMBS, CMBS) with an allowance loss recognition, subsequent recovery, effective yield adjustments and interest income recognition calculations over the life of the instrument.

Hedge Accounting

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

We believe the reasonably-effective standard is an appropriate modification considering the overall trend to principles-based accounting. The bright lines that have developed around the highly-effective standard often cause satisfactory hedge relationships to fail merely due to temporary mechanics. As practice develops under this new guidance, we believe hedge accounting will become a more widely and effectively used tool to manage risk.

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 believe an assessment of effectiveness at the inception of the hedge relationship is all that is needed because ineffectiveness will be recognized through income and disclosed in the

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footnotes. If a company believes the hedging relationship would no longer remain effective, it likely would end the relationship by closing out the derivative to avoid the economic costs of continuing an ineffective strategy as well as to minimize the income statement volatility. Consistent with the underlying purpose of accounting, the economics of the hedge relationship will drive the accounting as well as the risk management strategy.

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?

Refer to our response to Question 57.

Question 59: Do you believe that a hedge accounting model that recognizes in net income changes in the fair value and changes in the cash flows of the risk being hedged along with changes in fair value of the hedging instrument provides decision-useful information? If yes, how would that information be used? If not, why?

For reporting by financial institutions we believe this provides decision-useful information because the amounts recognized in earnings due to the changes in fair value and changes in cash flows of the risk being hedged provide the financial statement user with insight into the relative ability of the reporting company to manage the risks it is hedging. If only the derivative side of a hedging relationship is reported in income, the reader would not see the results of the hedging strategy on income.

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 the proposed changes will result in more transparent and consistent financial information about hedging activities because it will reduce the inconsistent treatment of hedge relationships arising from the current “highly effective” standard for determining whether a particular derivative contract and hedged item qualify for an accounting hedge relationship. Under the current “highly effective” standard, companies often must use a combination of “qualifying” hedges and “economic” hedges to manage interest rate risk due to the detailed rules that must be followed to meet the highly-effective quantitative requirements, which results in different financial reporting for economically similar transactions. The “reasonably effective” standard will allow combinations of derivative contracts and hedged items to meet the “qualifying hedge” standard and receive the same accounting treatment.

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?

We agree with the Board’s decision to relax the quarterly quantitative assessments and to require a reassessment of hedge effectiveness subsequent to inception only if circumstances suggest the hedging relationship may no longer be reasonably effective. Because companies are required to assess hedge effectiveness at the inception of the hedge to apply hedge accounting and because

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most hedges are designed to match the key terms of the hedged transaction, we suggest subsequent reevaluation of hedge effectiveness be required only if any of the critical terms of either the hedging instrument or the hedged item change during the life of the hedge. We believe this clarification will alleviate the number of differing interpretations that may arise regarding the circumstances that would require a subsequent evaluation of hedge effectiveness.

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 eliminating management's ability to de-designate and re-designate a hedge relationship will cause significant operational difficulties and add unnecessary constraints and costs to the management of hedge relationships and positions. We believe such actions are taken in response to a company's assessment of the current risk environment and the economics of exiting a derivative contract and de-designation and re-designation is an appropriate method of lowering the costs of effective risk management. We believe this proposal will result in companies unnecessarily incurring additional costs to enter into offsetting hedging transactions when de-designation would have been the more economically-rational approach.

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?

We believe de-designation strategies are an integral component of prudent and cost-effective interest rate and foreign currency risk management and prohibiting voluntary de-designation of a hedge accounting relationship eliminates a valid method of risk management. We believe the proposed guidance on effective terminations to be nonoperational and cost prohibitive. Because hedge strategies may be adjusted after a significant amount of time has passed since the original relationship was established, changes in the shape or level of an interest rate yield curve or sudden changes in foreign exchange rates could require a company to incur significant cost to enter into a new transaction.

For example, as changes occur in the risk profile of the hedged risk exposure, companies commonly add new hedging relationships and remove, or de-designate, existing hedge relationships. Because such risk management strategies are prudent and appropriate, we disagree with the Board's basis for conclusions regarding de-designation. Enhanced disclosure about why companies re-designate or de-designate hedging relationships would be the appropriate way to address the Board's concern.

Disclosures

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 agree with the proposed disclosure requirements.

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

We do not believe the transition provision to report a cumulative-effect adjustment to the statement of financial position for the reporting period that immediately precedes the effective date to be operational. We believe—in light of the judgments required by the Proposed Standard to measure financial instruments at fair value and determine credit impairment—it would be difficult for managements of companies required to adopt the Proposed Standard to make the fair value and credit impairment assessments, among others, without using, to some degree, the benefit of hindsight. To obtain greater consistency among companies and to relieve some of the operational complexity of adopting the Proposed Standard, we suggest the Board require a cumulative-effect adjustment to the opening balances of the statement of financial position at the date of adoption of the Proposed Standard.

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

The proposed changes to current practice are significant and will require two years at a minimum to identify the instruments affected, develop implementation guidance, modify existing transactions, develop or modify information technology systems, and test new systems to ensure they result in an effective internal control structure, among other activities. The strains placed on company resources will be compounded by the significant changes being contemplated to other accounting standards including accounting for costs incurred in connection with acquiring or renewing insurance contracts, accounting for leases, accounting for insurance contracts, and fair value measurements, among other standards.

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

Refer to our response to Question 68.