

March 25, 2013

The Honorable Hans Hoogervorst Chairman International Accounting Standards Board 30 Cannon Street London, EC4M 6XH United Kingdom

Ms. Leslie Seidman Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: IASB Exposure Draft on Financial Instruments: Classification and Measurement (Limited Amendments to IFRS 9)

Dear Chairmen Hoogervorst and Seidman:

The Financial Instruments Reporting and Convergence Alliance ("FIRCA") is a coalition of business, financial, insurance and real estate trade organizations representing all sectors of the economy and areas of the financial services arena. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally.

FIRCA appreciates the opportunity to comment on the IASB's Exposure Draft on Financial Instruments: Classification and Measurement (Limited Amendments to IFRS 9) (the "Proposal"). On November 16, 2012, FIRCA sent a letter to Financial Accounting Standards Board ("FASB") requesting a reconsideration of tentative decisions on classification and measurement relating to the use of fair value through new income ("FV-NI") for certain contractually linked instruments and equity instruments. Some of FIRCA's concerns expressed in that letter are concerns we also have with existing language in IFRS 9. Therefore, our comments below also include concerns with the existing IFRS 9 as well as with IASB's proposed changes to IFRS 9.

FIRCA believes that the Proposal can be improved by avoiding the unintended consequences and adopting the following improvements:

- Financial instruments (when not held for trading purposes) should be recognized at fair value, including fair value with periodic changes in fair value recognized in other comprehensive income ("OCI") (i.e., FV-OCI), or amortized cost based on the underlying business strategy for holding or issuing the financial assets, which includes both the reporting entity's strategy for the financial assets as well as its business model;
- Hybrid assets with embedded derivatives should be bifurcated and reported separately using existing guidance;
- The Proposal appears to create a disincentive to invest in equity securities. We believe that the Proposal should avoid such an unintended consequence as it will drive economic activity, instead of reflect it, harming investors and businesses as a result.

Our concerns are discussed in greater detail below.

FIRCA Mission and Principles

The mission of FIRCA is:

- To support the use of high quality, robust international accounting standards developed and adopted jointly by the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB"). These standards should be decision-useful, reliable, and relevant. Additionally, these standards should present financial information in a manner that reflects the business operations of the reporting entity. Appropriately crafted standards should transparently provide information and not drive economic activity.
- To assist standard setters in providing a wide range of input to ensure the proper consideration of business operations and potential

- unintended consequences in the development and implementation of accounting standards.
- Recognizing the ongoing impacts of the 2008 financial crisis and continued currency pressures in the Euro Zone are global in scope and magnitude, we will continue to work with standard setters and decision makers to ensure that these projects are conducted jointly to provide a comprehensive response to financial reporting policies.

Comments on Proposal

We recently provided you with FIRCA's updated principles that cover several aspects of the joint Financial Instruments project including: Classification & Measurement of Financial Assets and Financial Liabilities, Impairment, Derivatives and Hedging. We updated these principles to reflect changes in the market as well as progress made by the Boards in their deliberations.

Consistent with FIRCA's principles, we support the Proposal's introduction of a fair value through other comprehensive income ("FV-OCI") measurement category for debt instruments and the related requirement that when such financial assets are derecognized the fair value gains or losses accumulated in OCI are reclassified (recycled) to net income. However, we are concerned that several other aspects of the Proposal or with principles in the existing IFRS 9 are inconsistent with FIRCA's principles.

In particular, the Proposal would require the classification and measurement of equity securities and most securitizations at fair value with periodic changes in fair value recognized through net income ("FV-NI") rather than in OCI (i.e., FV-OCI). Consistent with our principles for Classification & Measurement, FIRCA recommends that the IASB allow these financial instruments (when not held for trading purposes) to be at fair value, including fair value with periodic changes in fair value recognized in OCI (i.e., FV-OCI), or amortized cost based on the underlying business strategy for holding or issuing the financial assets, which includes both the reporting entity's strategy for the financial assets as well as its business model.

¹ See FIRCA letter of October 10, 2012 to FASB Chairman Leslie Seidman and IASB Chairman Hans Hoogervorst. For convenience, FIRCA's Core Principles are also included as an attachment to this letter.

In addition, FIRCA is concerned that the Proposal would require the classification and measurement of hybrid assets with embedded derivatives at FV-NI in their entirety. Consistent with FIRCA's principles, we recommend that hybrid assets with embedded derivatives should be bifurcated and reported separately using existing guidance. The remaining host should be measured considering the reporting entity's business strategy for the instrument (i.e., hold for collection or payment of cash flows or current settlement) and its business model.

Further, regarding equity securities, we would also like to note that the requirements of the Proposal would likely have the consequences of discouraging entities, including financial institutions, from investing in equity securities. Recently the G-30 expressed concerns about actions by regulators and standard-setters that would restrict the ability of financial institutions to invest in equity securities.² We believe that this is an unintended consequence of the proposal and one that should be reviewed and considered by the IASB before finalizing the new standard. If the proposal were to create a disincentive for investing in equity securities, the standard would drive economic activity rather than reflect it, harming investors and businesses in the process. We do not believe that is the IASB's intention, but one that should be investigated and corrected.

Finally, FIRCA has significant concerns with respect to a rule within the existing IFRS 9. Specifically, B4.21(c) states as one of the criteria for fair value through OCI:

[t]he exposure to credit risk in the underlying pool of financial instruments inherent in the tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments (for example, this condition would be met if the underlying pool of instruments were to lose 50 per cent as a result of credit losses and under all circumstances the tranche would lose 50 per cent or less).

This would require any tranche other than the most senior tranche in a securitization be accounted for at fair value through net income. FIRCA believes this is wrong because:

² See the G-30 report on Long-Term Finance and Economic Growth issued on February 11, 2013 that proposes financial regulatory reforms to address global long-term capital shortfalls.

- It is inconsistent with the principle that the accounting should follow the business model. In this case, it would treat securities held for long-term cash flows or for sale to be accounted for as if they were trading securities held for sale providing less transparency to investors;
- Payments to each tranche holder represent payments of principal and interest from the underlying loans; and
- This results in the introduction of credit risk considerations into classification and measure principles.

Accordingly, FIRCA recommends the final version of IFRS 9 remove these eligibility criteria for fair value through OCI.

Conclusion

FIRCA looks forward to continuing our efforts to work with the IASB and FASB to achieve our goals of robust accounting standards that reflect the economic activity of business operations in the furtherance of efficient and fair global capital markets. We believe that our suggestions will improve the Proposal and help to achieve high quality global accounting. We stand ready to assist you in achieving these goals.

Sincerely,

American Council of Life Insurers
CRE Finance Council
Mortgage Bankers Association
Property Casualty Insurers Association of America
The Financial Services Roundtable
The Real Estate Roundtable
The U.S. Chamber of Commerce