May 14, 2013

Technical Director
Financial Accounting Standards Board
401 Merrit 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to: director@fasb.org


Dear Technical Director:

International Finance Corporation ("IFC") appreciates the opportunity to comment on the above referenced proposed Accounting Standards Updates (together, the "Proposal"). We commend the FASB for its ongoing effort to address the issues raised by its far reaching constituency with respect to the accounting for financial instruments and appreciate the difficulty of achieving consensus on matters having such broad and profound impact.

IFC, an international multilateral development organization, is a legally and financially independent member of the World Bank Group ("WBG"). Its activities are closely coordinated with and compliment the overall development objectives of the other WBG institutions. IFC, together with private investors, assists in financing the establishment, improvement and expansion of private sector enterprises by making loans, equity investments and investments in debt securities where sufficient private capital is not otherwise available on reasonable terms. IFC's share capital is provided by its member countries. It obtains additional funding for its investing activities through issuance of various debt instruments in international capital markets. In essence it is a venture capital enterprise with a developmental mandate.

In broad terms IFC supports the Proposal, particularly, but not necessarily limited to, the:

- initial and subsequent measurement requirements for equity investments
- elimination of the need to assess hybrid financial assets for bifurcation under ASC Subtopic 815-15
- requirement for an entity to separately present changes in fair value attributable to changes in the instrument-specific (entity's own) credit risk in comprehensive income of a financial liability for which that entity has elected the fair value option.
- accounting model for debt instruments overall, particularly the limitation of amortized cost measurement model to only those financial assets that satisfy the satisfy the "solely
payment of principal and interest” concept established by the Proposal (notwithstanding the business model assessment that would also be required)

- in general, the scope of instruments included, and
- accounting requirements for nonrecourse liabilities that are settled with only the cash flows from related financial assets.

Our observations concerning certain specific elements of the Proposal follow.

**Presentation matters – financial instruments for which all changes in fair value are recognized in net income – equity method investments**

Proposed paragraph 825-10-45-10 requires separate balance sheet presentation of investments held for sale from other equity method investments that qualify for equity method accounting. We interpret that paragraph such that an entity whose entire equity investment portfolio is held for sale would still be required to perform an assessment of whether equity method accounting would be required for any of its equity investments, notwithstanding the held for sale classification. This would result in a level of effort that far exceeds the value, if any, of such presentation to a user of financial statements issued by an entity like IFC, whose entire equity investment portfolio would be accounted for at fair value through net income (“FV-NI”).

We believe the FASB may have intended this particular requirement for reporting entities that would have investments qualifying for equity method accounting measured under both the equity method and the FV-NI subsequent measurement models – that is, some equity method investments that are held for sale and others that are not.

In any event, we recommend the Proposal be amended to provide an explicit exclusion from the requirement under proposed paragraph 825-10-45-10 for reporting entities whose entire “equity method” investment portfolio is held for sale.

**Fair value option**

IFC currently elects the Fair Value Option (“FVO”) for debt issuances that are economically hedged by derivatives entered into contemporaneously with the debt with matching terms on the debt and [receive leg of] the derivative, in order to avoid Subtopic 815-20’s onerous hedge accounting requirements.

We are unclear as to whether proposed paragraph 825-30-15-2 would preclude the FVO election for such debt issuances unless the assets funded by such debt are included in the “group of assets and financial liabilities” that the entity manages on a net fair value basis, as referred to in that paragraph (notwithstanding that fact that the paragraph *does* provide that derivative instruments may be included). We understand certain other constituents share our uncertainty.

If in the above scenario, the “group” of financial assets and financial liabilities would be required to include the funded assets in order for election of the FVO for the debt, it would
likely result in more enterprises, including IFC, resorting to the aforementioned hedge accounting requirements, recognizing that we understand these requirements may also be subject to an as yet indeterminate change in the near future. If in the unlikely event that is consistent with FASB’s intent, we recommend it reconsider this guidance to allow the FVO for groups of financial assets or financial liabilities where such groups are limited to either financial assets or financial liabilities and derivative instruments. If this is not FASB’s intent we recommend clarification of proposed paragraph 825-30-15-2 with respect to what the groups must contain.

Options contracts not considered derivative instruments and ASC Subtopic 815-10’s definition of a derivative

IFC’s exit strategies for many of its unlisted emerging market equity investments include long positions in option contracts, many of which are not considered derivative instruments under Subtopic 815-10 because they generally fail its net settlement criteria. As such, they are currently initial recognized at cost and subsequently measured at cost, less any other than temporary impairment by analogy to Subtopic 325-20 (APB No. 18, paragraph 6), in part, based on Q&A No. 4 of the FASB Staff Implementation Guide for SFAS. No. 115. The FASB Staff acknowledged in the second paragraph of that Q&A that no existing authoritative literature addresses the accounting for such instruments. Because these options are subsequently measured at cost, less impairment increases in their fair value are not recognized in the financial statements until they are exercised.

Therefore, we welcome the Proposal’s recognition and measurement guidance for equity investments (with include rights and obligations to acquire or, most importantly to IFC, dispose of ownership interests) because it will result in recognition and a single measurement model (FV-NI) for all such rights and obligations (notwithstanding the possible election granted by proposed paragraph 825-10-35-17) regardless of whether the instrument comprising the right or obligation satisfies a technical definition, that is, Topic 815’s definition of a derivative.

However, we note that under proposed paragraphs 15-141 and 35-5 of Subtopic 815-10, a mixed measurement model would continue for “non-derivative” contracts on debt instruments. Whereas, under the Proposal, both non-derivative and non-accounting hedge derivative options and forwards that embody rights or obligations to acquire or dispose of equity interests would be accounted for under the same FV-NI measurement model, multiple measurement models will continue to be applicable to similar contracts on debt instruments depending, in part, on whether the contract satisfies Subtopic 815-10’s technical definition of a derivative.

We find the chief reason certain option contracts are not considered derivatives is that they fail Subtopic 815-10’s myriad net settlement criteria. Assessment of these criteria is time-consuming and costly and would benefit from simplification while retaining an overall goal of increasing the population of instruments at FV-NI. Further convergence with IFRS and simplification of accounting for financial instruments under the ASC would result if the derivative net settlement criteria in ASC 815-10-15-83(c) were replaced with IFRS 9’s “future settlement” criterion for derivatives, which we hereby recommend the FASB consider.
Application to beneficial interests in securitized financial assets

With respect to proposed paragraph 825-10-55-26 and its guidance for beneficial interests in securitized financial assets, we note certain investment fund structures do not technically involve a securitization (because their funding instruments include debt issued in non-security form), yet their economic characteristics are similar to true securitizations. This could result in different accounting analyses being required for similar economic interests. Therefore, we recommend FASB reconsider the scope limitation inferred by the text in the first sentence of the proposed paragraph 825-10-55-26.

Effective date and transition

We recommend the Proposal be effective no earlier than for annual periods beginning after January 1, 2015. However, we would not object to entities being able to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for any financial liability that would qualify for the fair value option under the Proposal.

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Thank you for considering our comments. If you have any questions regarding this submission, please contact Paul Bravery, IFC's Chief Accountant and Senior Manager, Financial Reporting (202-473-7964).

Sincerely,

[Signature]

Bernard Lauwers
Controller and Director, Accounting & Financial Operations

Cc: Mr. Jani Laakso, IFC, Head, Accounting Policy
    Mr. Bruce W. Leonard, IFC, Senior Accounting Policy Specialist