May 15, 2013

Ms. Susan M. Cosper  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116


Dear Ms. Cosper,

We appreciate the opportunity to comment on the Exposure Draft *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (the “Proposed Update”). Our overall observations are set out below and our detailed responses to the questions are included in the Appendix.

We welcome the reduction of complexity in the accounting for financial instruments that *Financial Instruments (Subtopic 825-10)* offers by having one comprehensive model. We agree with the principle that an entity shall classify and measure its financial assets based on the contractual cash flow characteristics of a financial asset and the business model in which the asset is managed. This model results in a close convergence with International Financial Reporting Standards (IFRS 9) which is our top priority. However, we note that there are still some aspects of the proposed changes that are not fully converged with IFRS. We are strongly in favor of convergence, as having aligned classifications under IFRS and US GAAP will facilitate greater transparency and comparability in financial reporting and as such we believe should be one of the top priorities of the standard setters.

We support the mixed measurement approach to accounting for financial assets and therefore we agree with the proposed classifications of amortized cost, fair value through other comprehensive income and fair value through profit and loss. We agree with the Board’s
consideration of business model and cash flow characteristics of the assets to determine the initial and subsequent measurement.

Financial instruments held for trading or otherwise managed on a fair value basis should be measured at fair value through profit and loss and other financial instruments which are held for investment or funding purposes, primarily for the collection or payment of contractual cash flows should be measured at amortized cost unless certain criteria are met for which they will be held at fair value through other comprehensive income (FVOCI) category. The proposed changes highlight that only very limited sales activity would be permitted from the Amortized Cost category, which is narrower than the requirements proposed by IFRS 9. We recommend the Board reconsider the allowable sales from the Amortized Cost category to align with IFRS 9.

We suggest it would be helpful to clarify that assets would not fall into the FVOCI category as a result of disposals routinely carried out for certain reasons other than credit deterioration, such as rebalancing to reduce concentration risk or sales in anticipation of credit deterioration.

Generally, we agree with the contractual cash flow characteristic test, however we believe certain standard contractual features in many financial instruments may not meet the ‘solely payments of principal and interest’ (SPPI) threshold and its application may not be applied consistently within industry. We agree that a contractual term that modifies the economic relationship between principal and interest should generally invalidate an entity’s ability to classify a financial asset at Amortized Cost or FVOCI. However, we are concerned that the proposals could be operationally challenging to implement and result in too narrow an interpretation. To address this, we propose that additional qualitative guidance that further explains and illustrates the principle is provided.

Along with the above recommendations, we ask the Board to reconsider the proposed limitations over electing the fair value option. We believe the elimination of accounting mismatches is an important aspect of reporting meaningful financial results and that a fair value option election should be permitted similar to that proposed by the IASB.

Additionally, we support the following requirements as stated in the proposed Update:
- Requirement of recognizing foreign currency transaction gains/losses in net income for foreign currency denominated debt instruments measured at fair value through other comprehensive income.
- Retention of amortized cost as the default measurement basis for financial liabilities.
- Option to early apply the ‘own credit’ amendment.

We encourage the Board to consider our recommendations in this letter. Our specific responses on the proposed guidance are expressed more fully below.
If you would like to discuss our response in more detail, please contact Brett Beldner (brett.beldner@barclays.com) at 200 Park Avenue, New York NY 10166.

Yours sincerely,

[Signature]

Joseph M. Busuttil
Chief Financial Officer, Americas
Barclays
Appendix

Our responses to the detailed questions set out in the Exposure Draft are as follows:

**Question 1:** Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?

We agree with the scope of financial instruments included in the proposed Update.

**Question 2:** Do you agree with the industry-specific specialized guidance scope exceptions in paragraph 825-10-15-9? If not, why? What would you propose instead?

We agree with the industry-specific specialized guidance scope exceptions in paragraph 825-10-15-9.

**Recognition**

**Question 3:** The proposed amendments would require an entity to classify financial assets into the appropriate subsequent measurement category (that is, at amortized cost, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at fair value with all changes in fair value recognized in net income) on the basis of the contractual cash flow characteristics of the instrument and the business model within which financial assets are managed. Does the classification of financial assets based on the cash flow characteristics and the business model assessment provide decision useful information? If yes, how will this classification influence your analysis of the entity? If not, why?

We support the mixed measurement approach to accounting for financial instruments and therefore we agree that amortized cost, fair value through other comprehensive income and fair value through profit and loss provide useful information for particular types of financial instruments. We agree with the principle that financial assets should be classified on the basis of the asset’s cash flow characteristics and an entity’s business model.

Please refer to our responses to Questions 4 and 11 highlighting certain specific concerns with the cash flow characteristic test and the allowable sales out of the amortized cost category.

**Question 4:** Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?

We generally agree that the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment. However, we would like to outline a number of concerns.

The characteristics required to satisfy the cash flow test are very narrowly defined and may result in some instruments being classified at fair value through profit and loss due to a non substantive factor.
Under the proposed Update, certain instruments that would generally be viewed as vanilla and appropriate for an Amortized Cost classification (as they contain common and standard features) may not meet the contractual cash flow characteristics assessment, leading to counterintuitive result. These would include instruments that contain constant maturity features and instruments for which the interest rate is determined either by regulation or by government action.

We also believe that the definition of ‘time value of money’ should be extended to more explicitly include other factors that impact the level of interest arising on an instrument, such as liquidity and an instrument’s regulatory capital cost.

Finally, we believe that instruments where cash flows can be varied based on a remote contingency should not be precluded from being classified at Amortized Cost. For such instruments, variability that is theoretically possible but of little economic significance, should not be determinative in the overall analysis.

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<th>Question 5: The proposed amendments define principal as the amount transferred by the holder at initial recognition. Should the definition of principal be expanded to include repayment of the principal amount at maturity or other settlement? If so, what instruments would fail (or pass) the contractual cash flow characteristics criterion as a result of this change?</th>
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<td>We believe the Board should clarify the proposed definition of principal as the ‘amount transferred by the holder at initial recognition’ would not result in a failure of the SPPI test for instruments purchased at a discount but prepayable at par on maturity.</td>
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<th>Question 6: Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?</th>
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<td>As stated in our response to Question 4 above, while we generally agree with the cash flow characteristics test, we have some concerns with its application. Certain common features of financial assets would require classification of such a financial asset at fair value irrespective of the probability of the feature having an impact on the cash flows of the asset or the materiality of the feature.</td>
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As an example, a mortgage loan with an interest rate that is fixed for the first three years and then resets to 3 month LIBOR on an annual basis until maturity. Under the proposed guidance, this asset would fail the contractual cash flow characteristics test as it modifies the economic relationship between principal and interest. We do not view this interest rate reset feature as a feature that significantly reallocates cash flows between principal and interest and therefore should not result in the instrument failing the contractual cash flow characteristic test.

Another example relates to a public debt security which accrues additional interest if the issuer does not file its financial statements with the SEC by the filing deadline. The value of the feature is deemed immaterial given the rare likelihood that the feature is triggered. However, under the proposed Update, it would be required to measure the instrument at fair value through profit and loss.
As such, we believe the amendments should be clarified to avoid such characteristics resulting in a fair value through profit and loss treatment.

**Question 7:** Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?

We agree that a financial asset with a contractual term that modifies the economic relationship between principal and interest could be considered to contain cash flows that are solely payments of principal and interest.

We also agree with the principal that this should be the case if, and only if, the contractual cash flows could not be more than insignificantly different from the cash flows of a benchmark instrument. Since the proposal does not define the threshold at which the cash flow difference would be considered ‘insignificantly different’, it may be difficult to apply in practice and might be interpreted narrowly, even when it does not significantly affect the instrument’s cash flows.

In addition, we believe that there are some common instruments where the assessment is unclear and therefore further guidance would be helpful. Two such examples are (i) loans which reference an interest rate calculated on a constant maturity basis and (ii) lagged rate loans. Lagged rate loans have consistent observation and reset frequencies, but the observation might look back to a prior period. We consider that such instruments should be eligible for Amortized Cost classification, where the resulting risk and variability is commensurate with a benchmark instrument.

Therefore, we believe the concept of ‘insignificantly different’ should be further expanded upon to include those instruments where the nature and magnitude of cash flow variability is similar to that resulting from a benchmark instrument. An analysis of such instruments would include a qualitative assessment of these factors by reference to other similar instruments in the market and may extend to identifying market specific ‘benchmark instruments’ against which the comparison can be made.

Please refer to our response to Question 6 asking the Board to clarify that features with very low probability of occurring should not result in the instruments failing the contractual cash flow characteristic test.
Question 8: Do the proposed amendments contain sufficient application guidance in paragraphs 825-10-55-17 through 55-20 on assessing a modified economic relationship? If not, why?

We do not believe the proposed amendments contain sufficient application guidance on how to determine whether a feature introduces 'more than insignificant' leverage or variability that would be more than insignificantly different from the cash flows of the benchmark instrument. We believe that this ambiguity would likely cause inconsistent practice in the industry.

As outlined in our response to Question 7 above, we are concerned with the concept of 'insignificantly different' and we believe that it might be interpreted unduly narrowly and could be operationally difficult to apply. For example, in many instances an actual benchmark instrument may not exist. In such cases, it would be operationally difficult and costly to construct a hypothetical benchmark instrument and could lead to diversity in practice.

In addition, the proposed Update states that the entity must disregard the contingent term if it affects the instrument's contractual cash flows on the occurrence of an extremely rare, highly abnormal or very unlikely to occur event. We believe this condition may lead to inconsistency in practice and suggest that the Board allows an entity to exercise professional judgment to assess the probability of the feature materially impacting the contractual cash flows.

The proposed Update does not specify whether the analysis of cash flows is performed only at inception, or whether a continual assessment is required. Our expectation is that the test would only be performed at initial recognition, such that the potential for reclassification of a financial asset would only arise when the business model changes. However, it would be useful if this were clarified.

Question 9: For beneficial interests in securitized financial assets, the proposed amendments would require an entity to look through to the underlying pool of instruments in determining whether the tranche contains payments of solely principal and interest. Do you agree with this look-through approach? If not, why? What would you propose instead?

If the contractual cash flows of the assets in the underlying pool represent payments of principal and interest on the principal amount outstanding, any tranche that is exposed to the same or lower credit risk would also be deemed to represent payments of principal and interest on the principal amount outstanding.

We agree with the look-through approach to the underlying pool of instruments in determining whether the tranche contains payments of solely principal and interest.

Question 10: Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?

We agree with the proposed introduction of business models. In addition, the approach represents convergence with the proposed accounting requirements under IFRS. We are in favor of such convergence, as having a similar classification under IFRS and US GAAP will facilitate
greater transparency and comparability in financial reporting, as well as make accounting for multi-national companies more straightforward and less costly. However, as outlined below in Question 11 we have some reservations on the proposed boundary between the FVTOCI and Amortized Cost categories.

**Question 11:** Do the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the proposed guidance provided to describe those business models? If not, why?

We believe the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models except for the permitted sales out of the Amortized Cost category. The Amortized Cost business model is currently defined in a very narrow manner.

We note that credit deterioration sales or very infrequent sales that result from reasons other than managing credit exposures are the only circumstances where sales of debt instruments are permitted without calling into question their classification of Amortized Cost. However, we believe Amortized Cost should be allowed where an entity makes sales of loans to rebalance a portfolio to reduce geographical and industrial concentrations. Such action is a common activity that forms part of the normal dynamic of a lending business, which does not interfere with the overall business model of collecting contractual cash flows. Therefore, we suggest the Board removes the prohibition on sales due to concentration risk and clarifies that sales due to concentration risk are consistent with a business model whose objective is to hold assets in order to collect contractual cash flows. We also suggest that the Board aligns ‘very infrequent’ sales in other circumstances with ‘infrequent’ sales as allowed by IFRS 9. We also believe that it should be permitted to sell instruments in anticipation of credit deterioration, rather than waiting until the credit has actually deteriorated.

We do not agree that sales solely due to legal or regulatory requirements affecting a particular entity should require classification as FVTOCI instead of Amortized Cost. Such instruments if held in a business model to collect contractual cash flows should be measured at Amortized Cost irrespective of whether externally imposed sales from the portfolio occur.

**Question 12:** Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?

The classification based on the entity’s business model for managing financial assets and the contractual cash flow characteristics of those financial assets provides a clear rational for measurement. A tainting provision would increase the complexity of application, be unduly prohibitive in the context of that approach and could give rise to classification that is inconsistent with the classification approach of the Proposed Update.
We agree with the Board’s conclusions that an explicit tainting notion about the effects on an entity’s financial statements of sales from the held to collection category that are considered to be inappropriate might have unintended consequences such as an entity’s desire to avoid the potential negative effects of the tainting rule on its financial statements by avoiding classifying an instrument in Amortized Cost even though such a classification might be appropriate. However, as noted in our response to Question 11, we suggest the Board provide clarification around potential future sales and allow for a broader range of acceptable sales out of the Amortized Cost category.

Therefore, we believe the classification and measurement model for financial instruments should not contain an explicit tainting notion. This would also be consistent with IFRS.

**Question 13**: The proposed amendments would require loan commitments, a revolving line of credit, or a commercial letter of credit (the potential creditor) to be measured on the basis of the likelihood of exercise of the commitment and the classification of the underlying loan that would be made upon exercise of the commitment. Do you agree with the proposed classification of loan commitments? If not, why? What would you propose instead?

We note this is an area of inconsistency between IFRS and US GAAP and we recommend the Boards work together to resolve the divergence in this area.

**Initial Measurement**

**Question 14**: Do you agree with the initial measurement principles for financial instruments? If not, why?

We are in support of the proposed initial measurement principles for financial instruments as it avoids recognition of day 1 profit and loss on instruments measured at amortized cost. Under the proposed Update, financial instruments subsequently measured at amortized cost and financial assets subsequently measured at FVOCI should initially be measured at their transaction price whereas financial instruments subsequently measured at fair value through profit and loss should initially be measured at fair value.

We note inconsistency in this area between IFRS and US GAAP, therefore we urge the Boards to converge on this point.
Subsequent Measurement

**Question 15:** The proposed amendments would eliminate the unconditional fair value option (for financial instruments within the scope of this proposed guidance) in existing U.S. GAAP and, instead, permit an entity to elect to measure at fair value, with all changes in fair value recognized in net income, all of the following:

a. A group of financial assets and financial liabilities if the entity both:
   1. Manages the net exposure relating to those financial assets and financial liabilities (which may be derivative instruments) on a fair value basis
   2. Provides information on that basis to the reporting entity’s management.

b. Hybrid financial liabilities that meet certain prescribed criteria.

c. Financial assets that meet the contractual cash flow characteristics criterion and are managed within a business model that has the objective of both holding financial assets to collect contractual cash flows and selling financial assets (in accordance with paragraph 825-10-25-25(b)).

Do these options provide decision-useful information? If not, why?

We agree with the ability to elect fair value option based on the aforementioned requirements. Additionally, we believe that the ability to designate a financial asset at fair value through profit and loss to avoid an accounting mismatch between a financial asset and a corresponding financial liability and/or derivative instrument should be allowed.

Under the revised IFRS 9, entities will be permitted to elect the fair value option for a financial instrument after initial recognition if the credit risk of the financial instrument is subsequently risk managed with a credit derivative. In order to qualify for fair value accounting for the financial instrument, IFRS 9 requires that the following criteria be met: (i) the name of the credit exposure (for example, the borrower) matches the reference entity of the credit derivative, and (b) the seniority of the financial instrument matches that of the instruments that can be delivered in accordance with the credit derivative. Currently, US GAAP allows entities to elect fair value option only on initial recognition of a financial instrument or in certain specified circumstances. For entities with significant portfolios of loans, it is not possible to identify at initial recognition the specific loans that will be risk managed with credit derivatives because creditworthiness of particular borrowers, established risk limits, total exposure and the pricing and the availability of credit derivatives change over time. To manage these changes, entities may subsequently decide to risk manage their assets with credit derivatives. We strongly recommend that the FASB incorporate the same guidance into its final standard on recognition and measurement as the IASB.

**Question 16:** Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?

We agree that financial liabilities should generally be measured at amortized cost. However, in addition to instances where such liabilities are required to be measured at fair value under the
proposed guidance, we would support the availability of a fair value option election to avoid accounting mismatches between a financial liability and another instrument that is required to be held at fair value through profit and loss.

**Question 17:** The proposed amendments would require a nonrecourse financial liability that is settled with only the cash flows from the related financial assets (see paragraph 825-10-35-11) to be measured on the same basis as those assets. Do you agree with the proposed amendments? If not, why? What would you propose instead?

We support the proposal to align the measurement of nonrecourse liabilities with the financial assets that will be used to settle the nonrecourse debt. However, we encourage the Boards to also align the measurement of nonrecourse debt with any non-financial assets that will be used to settle the nonrecourse debt as we do not believe the nature of the assets associated with the nonrecourse debt should create accounting mismatches. For example, current nonrecourse debt issued by common consumer and commercial real estate securitization vehicles may contain non-financial instruments such as foreclosed real estate properties. We are concerned that the existence of the foreclosed real estate asset would preclude the ability to align the measurement basis of the nonrecourse debt and the assets of the securitization vehicle that will be used to settle the nonrecourse debt.

**Question 18:** The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain, until the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?

We agree with the proposed amendments requiring financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and prohibiting recognition of the gain until the sale is complete. Such sales represent sales other than for a business model reason and therefore should not be allowed to be reclassified. We only support reclassifications due to business model changes. However, we believe, a footnote indicating the fair value of the asset would be more helpful than a separate line on the face of the financials.

In addition, we suggest the Board provides guidance on the accounting to be applied to pools of similar financial assets when an entity expects to sell a portion and to hold a portion to collect contractual cash flows. We are concerned with the implications of subsequent accounting for these assets following allocation to classification categories based on percentage allocation. At inception, an entity will not be able to identify specific positions out of the pool that will subsequently be sold or held to collect. This may, result in sales of assets out of the portion of the pool initially allocated to the hold to collect category. Clarification is needed on this point to ensure subsequent accounting is applied consistently in practice and the subsequent sales activity would not result in the violation of the business model assessment at initial recognition.
Question 19: The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?

In our experience, it has generally been possible to determine reliable fair values for equity instruments. We support that if an entity is unable to determine a reliable fair value for investments in equity instruments, particularly unquoted investments, a practicability exception should be allowed. However, we suggest the Boards align the measurement of adjusted cost with the IASB’s proposal to provide convergence in this area.

Should the Board decide not to align the measurement of adjusted cost, we suggest the Board clarifies the Adjusted Cost calculation requiring only the adjustment for observable prices from identical or similar investments that are subsequent to the impairment recognition, instead of the current proposal which could lead to double counting if the observable price already includes an impairment.

Question 20: Should an entity 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 separately from the other deferred tax assets of the entity (rather than combined and analyzed together)? If not, why?

We understand this issue is also included in the Annual Improvements process by the IFRS Interpretations Committee. The improvement is titled Recognition of deferred tax assets for unrealized losses (IAS 12). We recommend the Boards continue to work together on this issue to result in a converged solution.

Question 21: Under the amendments in this proposed Update, hybrid financial assets would not be required to be analyzed for bifurcation under Subtopic 815-15 and would be assessed in their entirety on the basis of the proposed classification requirements. In contrast, hybrid financial liabilities would be assessed for bifurcation and separate accounting under Subtopic 815-15, and the financial liability host contract would be subject to the proposed amendments. Do you agree with this proposal? If not, why? What would you propose instead?

We agree that hybrid financial assets would not be required to be analyzed for bifurcation as they would be subject to the SPPI and business model tests. We also agree that the hybrid financial liabilities would be assessed for bifurcation and the financial liability host contract would be subject to the proposed amendments. This proposal would be consistent with the IFRS 9 guidance and application.
Question 22: The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?

We support reclassification where the business model has changed, which we expect to occur infrequently, but are concerned that the use of 'very infrequent' in the proposed Update may be interpreted as 'never.'

Given basic loan feature characteristics, if an entity's business model determines the classification of an instrument, then reclassifications are necessary when a business model changes. To be consistent with the business model principle, reclassifications should be required both into and out of fair value through net income when the business model changes. We would expect changes in business model to be infrequent, determined by an entity's key management personnel and as a result of significant external or internal changes.

Additionally, we suggest the Boards align the date at which reclassifications should take effect. IFRS requires reclassifications due to business model to be recorded as of the first day of the period after the period in which the business model changes versus the last day of the period in which the business model changes, as per the proposed Update.

Presentation

Question 23: The proposed amendments would require public entities to parenthetically present fair value for items measured at amortized cost on the face of the statement of financial position. Does that presentation requirement provide decision-useful information? If not, why? What would you propose instead?

We do not believe that both amortized cost and fair value should be provided on the face of the financial statements. Amortized cost instruments by their nature are to be held for the collection of cash flows and therefore providing fair value information on the face of the statement of financial position may confuse investors and users. We believe that this information is best presented in the notes to the financial statements.

Question 24: The proposed amendments would exempt nonpublic entities from parenthetical and footnote disclosures of fair value. Should nonpublic entities be required to parenthetically present fair value information on the face of the statement of financial position for financial instruments measured at amortized cost? If not, should fair value disclosures in notes to the financial statements be required for some or all nonpublic entities for financial instruments measured at amortized cost?

Not applicable.
**Question 25**: The proposed amendments would require an entity to separately present changes in fair value attributable to changes in instrument-specific credit risk in other comprehensive income for financial liabilities for which that entity has elected the fair value option. Would the proposed presentation requirement provide decision-useful information? If not, why? What would you propose instead?

We agree that the proposed presentation of changes in fair value attributable to changes in instrument specific credit risk in other comprehensive income for financial liabilities for which fair value option was elected provides decision useful information as most readers of the financial statements prefer to understand results excluding changes in fair value of liabilities related to an entity's own credit.

We note that recycling of cumulative gains and losses into profit or loss is permitted in case of debt buy backs or early redemption. However, this is inconsistent with the proposed IFRS requirement on own credit and we would urge the Boards to address this inconsistency.

**Question 26**: The proposed amendments would require an entity to separately recognize in net income changes in fair value attributable to foreign currency gain or loss on foreign-currency-denominated debt securities measured at fair value through other comprehensive income (see paragraphs 825-10-45-14 through 45-15). Is the proposed fair-value-based method provided for computing the foreign currency gain or loss component operable? If not, why? What would you propose instead?

We support the proposed amendment that would require an entity to separately recognize in net income changes in fair value attributable to foreign currency gain or loss on foreign currency denominated debt securities measured at fair value through other comprehensive income. To ensure full convergence, we would suggest the Boards address the inconsistency whereby foreign currency gains/losses would be calculated based on the amortized cost of the instrument under IFRS but fair value under US GAAP.

**Disclosures**

**Question 27**: The proposed amendments would require a public entity to provide disclosure of the core deposit liability balance, implied weighted-average maturity period, and the estimated all-in-cost-to-service rate by significant type of core deposit liability. Do you agree with the proposed disclosure requirement and, if so, how would you use that information? If not, what information should be provided and why? Is it appropriate not to require this information for nonpublic entities?

We disagree with the requirement to disclose the core deposit liability balance, the implied weighted-average maturity period and estimated all-in-cost-to-service rate by significant type of core deposit liability on the basis that these terms are not adequately defined and therefore will
not result in comparable or meaningful disclosures. Additionally, such information on core deposits represents proprietary information for which the benefit to users does not justify the potential cost of disclosure to preparers.

**Question 28:** Are there any other disclosures that would provide decision-useful information and why?

We would not identify any further disclosures.

**Question 29:** Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?

We do not agree with the proposed Level 3 quantitative disclosures of significant unobservable inputs for financial instruments that are measured at amortized cost. Level 3 inputs, by nature, require more subjectivity and management’s assertions than quoted prices or valuation techniques. Providing highly unobservable management assumptions for financial instruments measured at amortized cost related to Level 3 data does not provide useful information and results in voluminous disclosures which are not relevant to investors in understanding the entity’s financial statements.

We believe providing this information is operationally burdensome to preparers for very little benefit. We note that entities are currently required to disclose the level in the fair value hierarchy for financial instruments that are not measured at fair value. We believe this current level of information is sufficient for financial statements readers to assess the potential level of unobservability inherent in valuing financial instruments that are not currently carried at fair value.

Eliminating the requirement of disclosing quantitative information about the significant unobservable inputs used in the fair value measurement categorized within Level 3 for financial instruments not measured at fair value in the statement of financial position would be consistent with the current ASC 820 and IFRS 13 requirements.

**Transition and Open Effective Date Information**

**Question 30:** Should an entity be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option under the proposed requirements? If not, why?

We believe entities should be permitted to early adopt the proposed presentation requirements related to changes in instrument-specific credit risk for financial liabilities that would qualify for the fair value option under the proposed requirements.
We believe this early adoption should be expanded to all financial liabilities designated under the fair value option in accordance with paragraph 825-10-45-17 and not just hybrid financial liabilities that would qualify and be measured at fair value through profit and loss.

**Question 31:** Should the effective date be the same for both public entities and nonpublic entities?

We support the same effective date for both public and nonpublic entities.

**Question 32:** How much time is needed to implement the proposed guidance?

If the FASB moves forward with the proposed Update and in order to implement it properly, we suggest aligning the implementation time period with the Proposed Accounting Standards Update – *Financial Instruments – Credit Losses (Subtopic 825-15)* as this proposal is interrelated to this Proposed Update.

Given the time it may take to finalize the proposed Update and the lead time to implement the final standard, enough time should be allowed to implement it. We believe the FASB should work together with the IASB to align the implementation and effective dates.

**Question 33:** Are the transition provisions in this proposed Update operable? If not, why?

We believe the transition provision application guidance could be enhanced to provide additional guidance for preparers of the financial statements. For example, for financial assets that are required to be reclassified under the proposed Update from fair value through profit and loss to amortized cost, additional guidance is required whether effective interest rate should be recreated or the fair value at the date of initial application of the proposed Update should be treated as the new amortized cost of that financial asset. Additional guidance is also needed to address whether an entity, at the initial application, can revoke existing fair value option designations if the relevant financial asset or liability meets the conditions required to elect the fair value option under the proposed Update.
Equity Method Accounting

**Question 34:** The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?

We believe that equity interests held for sale in the near term should be recorded at fair value. In the spirit of convergence with IFRS, we ask the Boards to converge certain aspects on this issue that currently are not aligned. Specifically, we believe that the existing criteria, (i) the investment is available for immediate sale and (ii) the sale is highly probable, should require the investment to be measured at fair value through profit and loss.

We also believe, similarly to IFRS, that entities with equity method investments that are held by or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment linked insurance funds, should be allowed to measure such investments at fair value through profit and loss.

We are concerned that the application of the rules appears unclear. The assessment of held for sale must be performed at initial recognition, however the proposed Update does not provide guidance on the accounting for a subsequent change in strategy for an investment that does not initially meet the held for sale criteria. Additionally, it is unclear whether there would be a tainting concept for new investments if initial exit strategies are not met.

**Question 35:** The proposed amendments would change the current two-step impairment model for equity method investments to a one-step impairment model for all equity investments. Do you agree with the proposed one-step equity impairment model? If not, why? What would you propose instead?

We agree with the Board’s proposed amendment to change the current two step impairment model for equity method investments to a one step impairment model (without consideration of other than temporary impairment) for all equity investments. The proposed amendment of assessing impairment indicators to determine if it is more likely than not that the fair value of the investment is less than its carrying amount, and if so requiring recognition of an impairment loss, would improve the faithful representation of the resulting financial statements.

**Question 36:** Do you agree that the current portfolio-wide option for not-for-profit entities, other than health care entities, to account for their equity method investments at fair value should be retained? If not, why? Should that option also be made available to not-for-profit health care entities that are within the scope of Topic 954, Health Care Entities?

Not applicable.
Nonfinancial Hybrid Instruments

**Question 37:** The proposed amendments would eliminate the fair value option for hybrid nonfinancial instruments in current U.S. GAAP and would provide a new fair value option for hybrid nonfinancial liabilities. For a hybrid nonfinancial liability, an entity would apply the bifurcation and separate accounting requirements in Subtopic 815-15 and account for the embedded derivative in accordance with Topic 815. The financial liability host that results from separation of the nonfinancial embedded derivative would be subject to the proposed amendments. However, an entity would be permitted to initially and subsequently measure the entire hybrid nonfinancial liability at fair value (with changes in fair value recognized in net income) if after applying Subtopic 815-15 the entity determines that an embedded derivative that requires bifurcation and separate accounting exists. In contrast, for a hybrid nonfinancial asset the proposed amendments would require the hybrid contract to be measured at fair value (with changes in fair value recognized in net income) if the hybrid nonfinancial asset contains an embedded derivative that would have required bifurcation and separate accounting under Subtopic 815-15. Do you agree with the proposed amendments? If not, why? What would you propose instead?

As noted in our response to Question 16 above, we believe that the ability to elect the fair value option to eliminate an accounting mismatch between assets and liabilities should be allowed. Not only would this allow the entity to present the assets and liabilities on the same measurement basis that would lead to information that is meaningful on hedging economic risk, but it will also provide for convergence with IFRS.