May 15, 2013

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116
File Reference No. 2013-220

Dear Ms. Cosper:

The Federal Housing Finance Agency (FHFA or Agency) welcomes the opportunity to comment on the Financial Accounting Standards Board’s (FASB or Board) proposed Accounting Standards Update on Financial Instruments - Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities (the proposed ASU).

As the regulator of the Federal Home Loan Banks and the regulator and conservator of Fannie Mae and Freddie Mac, FHFA considers these entities’ audited financial reports an important input in the Agency’s safety and soundness supervision process. Therefore, FHFA supports high-quality accounting and auditing standards that promote the reporting of unbiased, transparent and relevant information about the performance and condition of these entities.

FHFA appreciates the Board’s efforts to (1) ensure that users of financial statements are provided with decision-useful information about an entity’s involvement in financial instruments and (2) reduce complexity in accounting guidance for financial instruments. FHFA considers the following requirements of the proposed ASU to be significant improvements for the generally accepted accounting principles in the United States (U.S. GAAP):

- The elimination of differences in accounting requirements based on the legal form of financial instruments (securities vs. non-securities);
- The introduction of the cash flows characteristic criterion and the articulation of the business model criterion in the assessment of financial assets for classification and measurement purpose;
- The replacement of the clearly-and-closely-related guidance in Subtopic 815-15, which is extremely complex and difficult-to-understand, with the solely-payment-of-principal-and-interest (SPPI) guidance to analyze hybrid financial assets;
- The elimination of the requirement to bifurcate embedded derivatives for hybrid financial assets;
- The requirement for public companies to disclose, on the face of the statement of financial position, the fair value information of financial assets and financial liabilities measured at amortized cost;
- The robust guidance on unit of account on initial recognition and measurement of financial assets and financial liabilities.

However, to further simplify the accounting for financial instruments and provide users with more decision-useful information, FHFA recommends that the Board consider incorporating the following revisions to the proposed ASU:

1. Including Topic 460 financial guarantees into the scope of the proposed ASU and applying the current expected credit loss (CECL) model (proposed in the Board’s project on credit losses for financial instruments) in the subsequent measurement of these financial guarantees;
2. Requiring the SPPI guidance in the classification and measurement assessment of financial liabilities and eliminating the requirement to bifurcate embedded derivatives for hybrid financial liabilities;
3. Designating the fair value through other comprehensive income (FVOCI) category as the residual category for financial assets that satisfy the cash flows characteristic criterion;
4. Providing an entity-wide fair value option for equity method investments.

1. Including Topic 460 financial guarantees in the scope of the proposed ASU:

As provided in paragraph 825-10-15-8m, the proposed ASU would exclude Topic 460 financial guarantees from its scope. Instead, in its Insurance Contracts project, the Board has tentatively decided that Topic 460 financial guarantees would be accounted for as insurance contracts.

FHFA recommends that the Board considers including Topic 460 financial guarantees in the scope of the proposed ASU. Additionally, the Board may require that these financial guarantees be classified at fair value through net income (FVNI) because of the highly volatile contractual cash flows associated with these financial guarantees. However, if the Board has concerns about the cost-benefit decision of classifying these financial guarantees at FVNI, the Board could consider requiring the financial guarantees to be subsequently measured at the greater of (i) the unamortized balance of their initial measurement or (ii) the lifetime expected credit loss measured in accordance with the CECL model.

These suggested revisions would be an improvement over the decision to account for Topic 460 financial guarantees as insurance contracts for the following reasons:

- The measurement of the financial guarantees under both the CECL and the insurance contract models would be based on expected future cash flows. However, for providers of financial guarantees that are not insurance companies, the CECL model would be
much simpler to understand and less costly to implement than the proposed insurance contract model;

- If the financial guarantee provider pays the guaranteed party and obtains financial assets (e.g., loans) underlying the guarantee, similar subsequent measurement attributes for credit losses would apply to the acquired financial asset and the pre-claim financial guarantees;
- The revision would move U.S. GAAP closer to International Financial Reporting Standards (IFRS) since the proposed amendment to IFRS No. 9 on credit loss accounting would result in a similar subsequent measurement for Topic 460 financial guarantees.

2. Requiring the SPPI guidance in the classification and measurement assessment of financial liabilities:

As currently provided, the proposed ASU creates, rather than reduces, complexity in U.S. GAAP because of the asymmetrical requirement to analyze financial instruments. For financial assets, the proposed ASU would require the use of the SPPI guidance in the classification and measurement assessment; however, for financial liabilities, the clearly-and-closely-related guidance in Subtopic 815-15 would apply. Additionally, the proposed ASU would eliminate the requirement to bifurcate embedded derivatives for hybrid financial assets while retaining the bifurcation requirement for hybrid financial liabilities.

Applying the same SPPI guidance to assess financial assets and financial liabilities and eliminating the bifurcation requirement for hybrid financial liabilities would result in the following improvements:

- Establishing a symmetrical model to assess both hybrid financial assets and hybrid financial liabilities;
- Simplifying the understanding of the proposed ASU since the SPPI guidance is more intuitive than the extremely complex and rules-based clearly-and-closely-related guidance;
- Reducing the costs to preparers to bifurcate and separately account for embedded derivatives while providing fair value information for hybrid financial liabilities to users of financial statements.

However, if the Board believes that classifying certain financial liabilities at FVNI does not pass the cost-benefit test, the Board could also provide some exceptions in the subsequent measurement for these liabilities. For example, if Topic 460 financial guarantees fail the SPPI assessment, the Board could decide to require that these financial guarantees be subsequently measured at the greater of (i) the unamortized balance of their initial measurement or (ii) the lifetime expected credit loss measured under the CECL model, as suggested above.

3. Establishing FVOCI as the residual classification category for financial assets that satisfy the cash flows characteristic criterion:
For financial assets that satisfy the cash flows characteristic criterion, the proposed ASU would require entities to assess their classification and measurement based on the three business models (825-10-25-25 and 825-10-35-8):

a. Held and managed for collection of contractual cash flows – classified and subsequently measured at amortized cost;
b. Held and managed for both collection of contractual cash flows and selling. (that is, at recognition, the entity has not yet determined whether it will hold the individual asset to collect contractual cash flows or sell the asset) – classified and subsequently measured at FVOCI; (emphasis added)
c. The assets fail to qualify for either (a) or (b) – classified and subsequently measured at FVNI.

The proposed ASU also specifies that “holding financial assets for sale would not be consistent with the primary objective of amortized cost or fair value through other comprehensive income classification” (825-10-55-38).

Taken together, the language in these paragraphs seems to suggest that if the entity has determined how it would realize the economic benefits of the financial assets then the financial assets would be classified at either amortized cost (holding for collection of contractual cash flows) or FVNI (if holding for sales). An entity would only classify a financial asset at FVOCI when the entity has not determined whether to hold the financial asset for collection of contractual cash flows or for sale. The FVOCI, therefore, would effectively be the residual classification category.

As stated in paragraph BC126 of the proposed ASU, the Board has intended for FVNI to be the residual classification category. However, the articulation of the business model for the FVOCI and FVNI category in paragraphs 825-10-25-25 and 825-10-35-8 would not lead to the desired outcome since their application would result in FVOCI being the residual category.

To improve the understandability and effective implementation of the proposed ASU, FHFA suggests the Board consider designating FVOCI as the residual category for financial assets that satisfy the cash flow characteristic criterion. Finally, the Board could also further simplify the proposed ASU by eliminating the unconditional fair value option for FVOCI financial assets in paragraph 825-30-15-4 since entities would be able to qualify for the FVNI category simply by designating financial assets as being held for sale upon initial recognition (BC127).

4. Providing an entity-wide fair value option for equity method investments:

The proposed ASU would eliminate the existing unconditioned fair value option for equity method investments while permitting not-for-profit entities to apply a portfolio-wide fair value option for these investments. FHFA suggests that the Board consider providing an entity-wide
fair value option (all-or-none option) for equity method investments held by all entities, not just not-for-profit entities, for the following reasons:

- The arguments cited in the proposed ASU do not provide sufficient support for limiting this entity-wide option only to not-for-profit entities. In paragraph BC34, the Board stated that because the portfolio-wide fair value option provided to not-for-profit entities “predates the instrument-by-instrument fair value option in current U.S. GAAP,” the Board decided to retain this option for not-for-profit entities. However, as elaborated below, for other entities (that are not-for-profit), an entity-wide fair value option for equity method investments may also provide relevant information to users of the financial statements and reduce the costs for preparers to comply with U.S. GAAP;
- Some users of financial statements may view fair value information as the more relevant measurement basis for these investments when compared to the measurement resulting from applying the equity method accounting;
- The entity-wide fair value option would reduce (i) the optionality in financial reporting (when compared to the instrument-by-instrument fair value option under existing U.S. GAAP) and (ii) the costs and efforts for preparers to apply the equity method accounting for these investments. These costs include the costs to:
  - Obtain necessary information from investees to perform the equity method accounting if the reporting entity only has significant influence over, but not control of, the investees;
  - Apply the “one-line consolidation” accounting procedure for equity method investments. This accounting procedure is much more complex to apply versus the efforts to obtain fair value information, especially if the equity securities are actively traded. Additionally, the equity method accounting would still require the reporting entity to obtain fair value information if and when the investments are determined to be impaired.
  - Implement accounting policies and procedures to address the differences in (i) accounting periods and (ii) accounting policies, between the reporting entity and its equity-method investees.

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Appendix A of this letter contains our responses to selected questions provided by the Board. Thank you for the opportunity to comment. Please feel free to contact me at 202-649-3450 for any questions regarding this letter.

Sincerely,

Nicholas J. Satriano
Chief Accountant
Federal Housing Finance Agency
Appendix A – Responses to Selected Questions in the Proposed ASU

Scope

Questions for All Respondents

**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?

**Answer:** As provided in paragraph 825-10-15-8m, the proposed ASU would exclude Topic 460 financial guarantees from its scope. Instead, in its Insurance Contracts project, the Board has tentatively decided that Topic 460 financial guarantees would be accounted for as insurance contracts.

FHFA recommends that the Board considers including Topic 460 financial guarantees in the scope of the proposed ASU for the reasons expressed in item 1 on page 2 of this comment letter.

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

**Answer:** The language in 825-10-15-9d seems to suggest that only depository and lending entities subject to Topic 942 would be eligible for the scope exception regarding their investments in Federal Home Loan Bank (FHLB) stock. However, investments in FHLB stock are also held by insurance companies that are subject to Topic 944. Therefore, FHFA suggests that the Board revise the language of this paragraph to ensure that the scope exception would apply to entities other than depository and lending entities that are eligible to own FHLB stock.

Recognition

Questions for Users

**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?

**Answer:** FHFA supports the introduction of both criteria related to the contractual cash flow characteristics of the instrument and the business model within which financial assets are managed, when assessing the classification and measurement of the financial assets.
For financial instruments with significantly volatile contractual cash flows, only fair value measurement would be relevant for decision making and faithfully represent the current value of the financial instruments at the reporting date. For other financial instruments with more stable contractual cash flows, classification and measurement based on how the entity may realize the value of the instruments provides more decision-useful information to users of financial statements.

FHFA suggests that the Board consider permitting entities to classify financial assets by first assessing the business model in which the assets are managed prior to performing the contractual cash flow characteristics analysis. Although the ultimate classification outcome would not be different, performing the business model assessment first would reduce the implementation costs for entities since financial assets that the entities hold for sale would not have to go through the contractual cash flow characteristics analysis.

**Questions for All Respondents**

**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?

**Answer:** Yes. The proposal appropriately conveys the principle associated with the contractual cash flow characteristics assessment.

**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?

**Answer:** FHFA agrees with the definition of principal in the proposed ASU. However, the Board may wish to consider the interaction between this definition of principal with (i) the guidance on nonaccrual accounting and (ii) the definition of purchased credit impaired financial assets, as provided by the FASB in its proposed ASU for credit losses of financial instruments.

**Question 6:** Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?

**Answer:** The proposed amendments generally provide sufficient application guidance and illustrations on implementing the cash flow characteristics assessment. However, the application guidance provided for the assessment of extension option could be improved.
One of the conditions that a financial asset with extension option must satisfy to meet the contractual cash flow characteristic criterion was provided in paragraph 825-10-55-22b as follows: “The terms of the contractual provision result in contractual cash flows during the extension period that are solely payments of principal and interest on the principal amount outstanding.”

It was not clear that the assessment of the terms of the contractual provision would be based on the market conditions prevailing at (i) the acquisition of the asset or (ii) the exercise date of the extension option. The Board could provide clearer guidance on this issue to avoid diversity in practice.

**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?

**Answer:** FHFA agrees that financial assets with a contractual term that modifies the economic relationship between principal and interest could be considered as containing cash flows that are solely payments of principal and interest if, and only if, the contractual cash flows could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19. This requirement would reinforce the classification and measurement model of the proposed ASU while providing cost-beneficial guidance for preparers of financial statements.

**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?

**Answer:** The proposed ASU contains sufficient guidance on assessing a modified economic relationship.

**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?

**Answer:** FHFA agrees with the proposed look-through approach to assess beneficial interests in securitized financial assets for classification purposes.
Question 10: Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?

Answer: As elaborated on page 4 of this letter, the language to describe the business models for the FVOCI and the FVNI categories and the decision to designate FVNI as the residual category seems to be contradictory (See paragraphs 825-10-25-25, 825-10-35-8 and 825-10-55-38).

To improve the understandability and effective implementation of the proposed ASU, FHFA suggests the Board consider designating FVOCI as the residual category for financial assets that satisfy the cash flows characteristic criterion. With this revision, the Board could also simplify the proposed ASU by eliminating the unconditional fair value option for FVOCI financial assets in paragraph 825-30-15-4 since entities would be able to qualify for the FVNI category simply by designating financial assets as being held for sale (BC127).

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?

Answer: FHFA suggests that the Board consider providing additional application guidance for the assessment of the classification of financial assets included in liquidity portfolios. It is not clear (i) whether all financial assets in these liquidity portfolios would be classified in either FVOCI or amortized cost or (ii) whether some financial assets in these portfolios would be classified in FVOCI and the remainder of the portfolio in amortized cost.

Entities invest available funds in these portfolios to manage liquidity risk and to obtain higher returns compared to that of cash deposit. Because entities may hold and sell financial assets in these portfolios, it seems that FVOCI would be an appropriate category to classify these financial assets. However, since the assets in these portfolios tend to be highly liquid and short-term instruments, it is likely that, at the acquisition of these assets, the entities would conclude that the economic benefits from these assets would be realized by collecting their contractual cash flows, which is more consistent with the amortized cost category. Further guidance on the classification of financial assets in liquidity portfolios would prevent potential diversity in practice.

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?

Answer: The proposal requires sales out of the amortized cost category to be infrequent, isolated, and nonrecurring. As the tainting notion was removed in the proposed ASU, the Board may wish to consider providing additional implementation guidance on how the concept of “infrequent” sales should be assessed to foster consistent application of the proposed ASU.
For example, should one insignificant sale in each quarter be considered “infrequent” sale for quarterly reporting purpose but, if viewed in an annual reporting context, these one-per-quarter sales could be considered significant and frequent and therefore the classification in amortized cost would be inappropriate?

Additionally, the guidance on classifying a pool of similar financial assets upon acquisition provides that an entity classifies “a percentage of the pool into one of the three classification categories” (825-10-15-30). If subsequently the expectation about the percentage of the pool that would be sold increases, it is not clear whether the proposed ASU would permit reclassification of financial assets initially classified at amortized cost into the other classification categories to correct the initial preliminary estimate.

**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?

**Answer:** FHFA agrees with the proposed guidance on classification of loan commitments.

**Initial Measurement**

**Questions for All Respondents**

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

**Answer:** Yes. FHFA appreciates the guidance on the unit of account on initial recognition and measurement of financial assets and financial liabilities. This guidance is a significant improvement to current U.S. GAAP.

**Subsequent Measurement**

**Questions for Users**

**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 and

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?

**Answer:** While FHFA agrees with the proposed elimination of the unconditional fair value option in existing U.S. GAAP, as elaborated on page 5 of this letter, FHFA would like the Board to consider providing an entity-wide fair value option (all-or-none option) for equity method investments held by all entities, and not limiting this option to only not-for-profit entities.

The Board stated in paragraph BC34 that because the portfolio-wide fair value option provided to not-for-profit entities “predates the instrument-by-instrument fair value option in current U.S. GAAP,” the Board decided to retain this option for not-for-profit entities. However, for other entities (that are not-for-profit), an entity-wide fair value option for equity method investments may also provide relevant information to users of the financial statements and reduce the costs for preparers to comply with U.S. GAAP. Therefore, providing an entity-wide fair value option for all entities would strike an appropriate balance between reducing optionality in current financial reporting and providing cost-beneficial accounting guidance for users and preparers of financial statements.

**Questions for All Respondents**

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

**Answer:** As documented on page 3 of this letter, the proposed ASU creates not reduces, complexity in U.S. GAAP because of the asymmetrical requirement to analyze hybrid financial instruments. For hybrid financial assets, the proposed ASU would require the use of the SPPI guidance in the classification and measurement assessment; however, for hybrid financial liabilities, the clearly-and-closely-related guidance in Subtopic 815-15 would apply. Additionally, the proposed ASU would eliminate the requirement to bifurcate embedded derivatives for hybrid financial assets while retaining the bifurcation requirement for hybrid financial liabilities.
FHFA suggests that the Board consider requiring the same SPPI guidance to assess hybrid financial liabilities and eliminating the bifurcation requirement for hybrid financial liabilities to reduce complexity in U.S. GAAP. However, if the Board believes that classifying certain financial liabilities at FVNI does not pass the cost-benefit test, the Board could also provide some exceptions in the subsequent measurement for these liabilities.

**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 825-10-33-11) 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?

**Answer:** FHFA agrees with the proposed requirement that nonrecourse financial liability that is settled with only the cash flows from the related financial assets to be measured on the same basis as those assets. This proposed amendment reflects the economic relationship between the nonrecourse financial liability and its related financial assets and eliminates inappropriate volatility in the statement of comprehensive income.

**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?

**Answer:** FHFA agrees with the proposed accounting for amortized cost financial assets subsequently identified for sale. However, FHFA suggests that the Board clarify whether entities are permitted to reverse the previously recognized impairment up to the previous amortized cost basis if the financial assets’ fair value subsequently increases prior to the selling date.

**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?

**Answer:** No. Although FHFA understands the basis for the Board’s decision to provide this practicability exception, the proposed exception would result in more complexity in the proposed classification and measurement model and cause further divergence between U.S. GAAP and IFRS. Also, the practicability exception still requires entities to estimate the fair value of the equity investment when the investment is impaired; therefore FHFA does not understand the argument that the entities are not able to estimate fair value when the investments are not impaired.
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?

Answer: FHFA agrees with the proposed guidance on valuation allowance for deferred tax asset related to a debt instrument measured at FVOCI. An entity’s intent and ability to hold debt instruments with unrealized losses until recovery can be considered akin to a tax planning strategy to overcome the need for a valuation allowance for the deferred tax asset.

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?

Answer: Please see page 3 of this letter for FHFA’s suggestions that the Board consider requiring the application of the SPPI guidance in the assessment of financial liabilities and the elimination of the bifurcation requirement for hybrid financial liabilities.

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?

Answer: FHFA agrees with the proposed requirement to reclassify, and subsequently account for, financial assets when a change in business model occurs.

Presentation

Questions for Users

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?

Answer: FHFA agrees that the parenthetical disclosure, on the face of the statement of financial position, of fair value for items measured at amortized cost provides users of financial statements with timely and relevant information to make investment decisions.
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?

Answer: Yes, the proposed presentation requirement would provide decision-useful information.

Disclosures

Questions for Users

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

Answer: No.

Questions for All Respondents

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

Answer: Yes, FHFA agrees with the proposed disclosure requirements.

Equity Method Accounting

Questions for All Respondents

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?

Answer: FHFA agrees with the proposed requirement to initially assess and classify equity method investments held for sale. Additionally, although the language in paragraph 323-10-15-20 regarding the indicators that must be present, at initial recognition, for these investments to be classified as held for sale is considerably broad, the prohibition to subsequently change the classification of these investments would reduce the opportunity to improperly manage earnings.
**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?

**Answer:** FHFA agrees that the one-step impairment model would simplify impairment accounting guidance for equity method investments and reduce the burden on preparers of 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?

**Answer:** Please see page 4 of this letter for FHFA’s suggestion that the Board consider providing all entities with an entity-wide fair value option (all-or-none option) for their equity method investments.

**Nonfinancial Hybrid Instruments**

**Questions for All Respondents**

**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?

**Answer:** Please see page 3 of this letter for FHFA’s suggestions that the Board consider requiring the application of the SPPI guidance in the assessment of financial liabilities and the elimination of the bifurcation requirement for hybrid financial liabilities.