May 15, 2013

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


Dear Technical Director:

We appreciate the opportunity to comment on the Exposure Draft of the Proposed Accounting Standards Update, Financial Instruments – Overall (Subtopic 825-10) (“the Proposed ASU”). The Nationwide Insurance Enterprise (“Nationwide”) is comprised of three affiliated mutual insurance companies and their subsidiaries under common management, operating both property and casualty and life insurance companies. Nationwide is one of the largest diversified insurance and financial services organizations in the world with U.S. GAAP annual revenues of $23 billion and assets totaling $168 billion. Nationwide is a major institutional investor with investments totaling $75 billion, of which 77 percent and 16 percent of our investments are in fixed maturity securities and structured securities, respectively.

We support the coordinated convergence efforts with the International Accounting Standards Board (“IASB”) to improve global financial reporting consistency and comparability for financial statement users. We also support the Financial Accounting Standards Board’s (“FASB” or “the Board”) main objective to provide financial statement users with more decision-useful information and transparency about an entity’s involvement in financial instruments, while reducing the complexity in accounting for those instruments. However, we do not believe this objective will be achieved through adoption of the guidance as proposed. Furthermore, we do not believe that the current proposal would improve existing U.S. GAAP, as it would result in most instruments being measured at fair value through net income (“FVTNI”) despite having a business strategy to hold these assets for purposes other than trading or selling in the near term. This would in turn result in less relevant and understandable information for our financial statement users. Our comments are directed towards enhancing the Proposed ASU and expressing our concerns about the application of the cash flow characteristics test (solely payments of principal and interest, “SPPI test”).

Before providing our comments, we would first like to express our appreciation to the Board for addressing concerns raised in previous comment letters to modify the business model assessment to better align with management’s risk strategy practices, similar to existing U.S. GAAP and International Financial Reporting Standards guidance. Additionally, within this comment letter, we would like to explain our concerns and suggest certain clarifications and simplifications. We believe our recommendations could minimize implementation complexities while ensuring that the product of the proposed guidance is still in line with the Board’s objectives and provides decision-useful information to financial statement users. The following is a summary of our key concerns and recommendations:
• We believe that the application of the SPPI test may result in “less than significant” contractual features driving the classification and measurement of a financial instrument, as the term “solely” provides a bright-line that is overly restrictive. On a similar note, we believe the decision to not permit consideration of the probability of assessing a contingent payment (outside of the scenario where the probability is extremely rare, highly abnormal and very unlikely) will produce counterintuitive results. Consequently, we strongly urge the Board to modify the SPPI test from “solely” to “substantially” payments of principal and interest and require consideration of the probability of assessing a contingent payment, as this will replace the “bright-line” concept with a more “principle based” concept.

• We believe the SPPI test, as it relates to beneficial interests in securitized financial assets, will require a significant number of junior tranches within structured securities to be measured at FV-NI simply because of subordination. This outcome is inappropriate, as it unfairly penalizes structured securities relative to other subordinated bonds purchased outside of a structure. Additionally, subordination should not be a factor in determining classification and measurement as it is taken into consideration when determining the current expected credit losses which is consistent with other similar subordinated bonds outside of a structured vehicle. We strongly recommend the FASB modify the criteria for beneficial interests in structured securities by removing credit risk from the classification and measurement assessment or by permitting a fair value through other comprehensive income (“FV-OCI”) election for financial assets supporting insurance liabilities. The FV-OCI election is discussed further below.

• We believe the Board should include a FV-OCI election when classifying and measuring assets supporting insurance liabilities. Further, we believe a FV-OCI election should be limited to assets backing liabilities in the scope of the insurance contracts proposal, where changes in the discount rate are recorded in OCI. This FV-OCI option would better align the measurement of assets and liabilities for insurance contracts staying true to the “business strategy” objective and would provide more relevant and useful information to financial statement users. It would also be consistent with other elections in the proposed guidance that prevent measurement mismatches.

• The Board should allow for an effective date aligned with the insurance contracts standard currently being developed for entities significantly impacted by that standard. The alignment of these dates is necessary to avoid confusion on the part of the users given that the two standards are so closely linked.

We expand upon our key recommendations in the following pages.
COMPREHENSIVE RECOMMENDATIONS

Solely Payments of Principal and Interest

In order to reduce the likelihood of a less than significant contractual feature precluding a debt instrument from qualifying as amortized cost ("AC") or FV-OCI, despite one of these categories being aligned with an entity's business strategy, we suggest that the SPPI test incorporate the concept of materiality and significance, which is already being used to evaluate some features (e.g., leverage and interest rate reset, prepayments and extension options and contingent cash flows). Under this evaluation, if these features are not significant they would not taint the classification and measurement of the entire financial instrument. This concept of materiality should be more broadly applied to other types of embedded derivatives or cash flow features. If not, and the "solely" language is retained within the SPPI test a "less than significant" contractual feature could determine the accounting treatment for an entire financial instrument. For example, a call option on a debt instrument, which if fair valued on its own would have little to no standalone fair value, would inappropriately result in disqualifying the entire financial instrument from being considered SPPI even though the hybrid instrument represents cash flows that are substantially payments of principal and interest. The proposed guidance gives no consideration to the significance of the feature in relation to the debt instrument as a whole; consequently, the impact to net income would not be proportional to the significance of the features. This same "less than significant" feature would have a significant impact to net income because, under the proposed guidance, the entire debt instrument would be recorded at FV-NI resulting in additional and less decision-useful volatility in an entity’s income statement. Therefore, we recommend that the Board modify the SPPI test from "solely" payments of principal and interest to "substantially" payments of principal and interest. This modification would eliminate our concern that less than significant contractual features would drive accounting results for “plain vanilla” financial assets with prepayment and extension options, contingent cash flows and other modified economic relations.

Likewise, while the Proposed ASU provides an exception with regards to contingent payments where the probability is extremely rare, highly abnormal, and very unlikely, we believe this exception is too narrow. Just as only reasonably possible scenarios are to be considered when assessing leverage and interest rate features, we believe that probability should be taken into consideration when assessing a contractual provision that provides for the possibility of a contingent payment.

We are also concerned that application of the SPPI test could result in insignificant or unlikely contractual features determining the classification and measurement of financial instruments. We believe that many financial instruments may have contingent contractual cash flows that are, in general, fees that may not be related to credit, and we are unsure if this would preclude many financial assets from passing the SPPI test. For example, within many asset-backed securities, there may be fees in the underlying collateral that may be passed on through the trust’s cash flows. One example may be the annual fees or any late fees charged to the credit card borrower in a secured credit card transaction. It is unclear that under the proposal if such fees will preclude these securities from a measurement category other than FV-NI.

Another concern we have relates to the proposed implementation guidance on perpetual instruments which indicates that if there is a possibility that the security may defer interest and not accrue additional interest on that deferred interest, it would fail the SPPI test under the proposed “solely” instead of a “substantially” payments of principal and interest test. Outside of perpetual instruments, we believe that the majority of beneficial instruments that are tranched based on subordination have this type of deferral feature. There is a possibility to defer interest without default and those cash flows are diverted to the highest tranche either temporarily or permanently. Currently, if this occurs, debt securities are impaired for these shortfalls of interest. Theoretically, the likelihood of these deferrals would already be included in the credit loss allowance that may be created by the proposed
Financial Instrument Expected Credit Loss model. Therefore, we do not believe a deferral feature should be a consideration when determining the classification and measurement of an instrument. Furthermore, we would like clarification that in any scenario where there is the potential for a financial instrument holder to collect less than principal and interest (i.e., bond purchased at a premium or bond which does not require interest on interest when not paid timely) the instrument would not fail the SPPI as the instrument still provided solely payments of principal and interest. Any possible risks related to the collection of those payments would be appropriately addressed through the Current Expected Credit Losses Proposal.

Beneficial Interests in Securitized Financial Instruments

We believe a literal read of the proposed criteria for beneficial interests in securitized financial assets (“structured securities”) would result in only the most senior tranches qualifying for AC or FV-OCI. Our interpretation is based on the third criterion of the model which states:

The exposure to credit risk in the underlying pool of financial instruments that are inherent in the tranche of beneficial interest is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments. For example, this condition would be met if the underlying pool of instruments were to lose 50 percent as a result of credit losses and under all circumstances the tranche would lose 50 percent or less.

It appears that structured securities that are subordinated to a senior tranche could, after considering all possible scenarios, experience losses that are proportionally higher than the losses in the underlying pool, and thus require FV-NI reporting. We believe this is inconsistent with the underlying economics for subordinated tranches in our structured security portfolios. Consistent with many insurance companies, the majority of our structured securities’ underlying pools would meet the SPPI test because they are mainly comprised of bonds and/or loans. Some structured securities contain derivatives, but these derivatives are generally used to align the contractual cash flows of the underlying collateral with the contractual cash flows of the structured securities issued. Thus, we believe these structured securities would still meet the criteria for being considered SPPI, if not for the criterion above related to subordination features. We believe structured securities have characteristics similar to other debt instruments, and we do not believe a potential loss of principal and interest as a result of structured subordination should affect classification and measurement. We believe it is more appropriate to address structured securities’ credit exposure in the financial instruments expected credit loss model. Structured securities should be evaluated for an expected credit loss allowance under the same allowance model used for corporate bonds. As proposed, a corporate bond with the same credit rating and a similar level of exposure to credit risk due to subordination as a structured security could be reported at FV-OCI and its credit risk evaluated through the expected credit loss model; whereas, the junior tranche of the structured security would be reported at FV-NI.

Our position is consistent with the FASB’s Basis of Conclusion in FAS 155, paragraph A23, which provides rationale for why concentrations of credit risk in subordinated interests in securitized financial assets should not be considered embedded derivatives, it states:

Board members reasoned that the purchase price of a subordinated financial instrument reflects the investor’s assessment of the cash flows it expects to receive, including the likelihood of default and, therefore, concentrations of credit risk are reflected in the fair value of the subordinated financial instruments. As the credit risk of the subordinated financial instrument is reflected in its fair value, there is no need for separate recognition of credit concentrations.

While subordination in beneficial interest does create disproportionate credit risk, this type of disproportionate credit risk exists for corporate bonds where senior notes or subordinated notes could be issued by an entity but would not impact how these instruments would be classified under the proposed guidance. The resulting classification of FV-NI for beneficial interests would not provide decision useful information to investors when these instruments are not held for trading purposes.
Additionally, insurers tend to have substantial investments in structured securities. According to the American Council of Life Insurers, life insurance companies currently invest approximately $250 billion in the subordinated tranches of structured securities. Insurers generally use structured securities to support their insurance liabilities. Example 9: Held-to-Collect Contractual Cash Flows and Sell in paragraphs 825-10-55-84 and 55-85 explicitly discusses how insurers use this business model (see proposed guidance cited below). Under the proposal currently being drafted for accounting for insurance contracts, insurers will record interest related changes in their insurance liabilities resulting from changes in discount rates through OCI. Therefore, classifying more structured securities as FV-NI, due to subordination features alone would create financial reporting that is not reflective of management’s asset-liability matching strategies and increase earnings volatility. We believe this would significantly reduce insurers’ appetite for investing in structured securities, and could have unintended negative implications on the structured securities market that should be thoughtfully considered.

In order to remedy the implications noted in the above paragraphs we strongly recommend the FASB modify the criteria for beneficial interests in structured securities by removing credit risk resulting from subordination from the classification and measurement assessment or by permitting a FV-OCI election for financial assets supporting insurance liabilities. The FV-OCI election is discussed further below.

**FV-OCI for Assets Supporting Insurance Liabilities**

We believe the Board should include a FV-OCI category for financial assets supporting insurance liabilities. The FV-OCI election should be limited to assets backing liabilities in the scope of the insurance contracts proposal, where changes in the discount rate are recorded in OCI. This FV-OCI option would mitigate potential accounting mismatches and align the measurement of assets and liabilities for insurance contracts. Furthermore, it is consistent with the held-to-collect contractual cash flows and sell business model of insurance companies, as discussed in the proposed ASU.

825-10-55-85 The insurer’s objective is to fund insurance contract liabilities. Both collecting contractual cash flows to fund liabilities as they become due and selling financial assets to maintain the desired profile of the asset portfolio are integral to achieving that objective. Accordingly, the insurer’s business model is to manage financial assets both to collect contractual cash flows and to sell them.

Additionally, we believe that providing a FV-OCI exception for financial assets backing insurance contracts to avoid an accounting mismatch is similar to the concept behind the exception the FASB has proposed for certain nonrecourse financial liabilities as discussed in the Basis of Conclusion, paragraphs BC138 and BC139. Specifically, aligning the measurement of connected assets and liabilities would provide more decision-useful information to financial statement users.

**Effective Date**

The Board should allow for an effective date aligned with the insurance contracts standard currently being developed for entities significantly impacted by that standard. The proposed accounting standards for financial instruments, in addition to the developing insurance contracts guidance, will have a significant impact on insurers (impacting substantially all of their assets and liabilities) and their financial statement users. Therefore, we believe that the alignment of these effective dates is necessary to avoid confusion on the part of the users given that the two standards are so closely linked.
CONCLUSION

As mentioned above, we support the FASB’s main objective to provide financial statement users with timely and decision-useful information about an entity’s financial instrument holdings, while reducing the complexity in accounting for those instruments. We believe the proposed classification and measurement model is a significant improvement from prior exposure drafts. We also believe the recommendations discussed above regarding the cash flow characteristic test, beneficial interests in securitized financial instruments, and insurers’ business model would further improve the proposed ASU as they are consistent with the Board’s objectives; they consider practical applications; and they better align an entity’s business strategy to the classification and measurement of their financial instruments.

Our response to the comprehensive list of questions is attached as an appendix to this letter. We hope these comments assist you during your re-deliberations of the proposed guidance. In the event that any Board or FASB staff member would like further clarification of our positions, we would be happy to discuss them in greater detail.

Respectfully,

James D. Benson
Senior Vice President, Enterprise Controller and Chief Accounting Officer
Nationwide Insurance
APPENDIX

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?

Yes. We agree with the scope of financial instruments included in this proposed ASU.

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?

Yes. We agree with the industry-specific specialized guidance scope exceptions in this proposed ASU. However, we propose additional industry-specific guidance relative to insurance companies in the response to question 10 below.

Questions for Users (Question 3)  N/A – We do not have a view on this proposed amendment.

Recognition

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?

No. In order to reduce the likelihood of a less than significant contractual feature precluding a debt instrument from qualifying as AC or FV-OCI, despite one of these categories being aligned with an entity’s business strategy, we suggest that the SPPI test incorporate the concept of materiality and significance, which are proposed to be used to evaluate some features (e.g., leverage and interest rate reset, prepayments and extension options and contingent cash flows). Under this evaluation, if these features are not significant they would not drive the classification and measurement of the entire financial instrument. This concept of materiality should be more broadly applied to other types of embedded derivatives or cash flow features. If not, and the “solely” language is retained within the SPPI test a “less than significant” contractual feature could determine the accounting treatment for an entire financial instrument. For example, a call option on a debt instrument, which if fair valued on its own would have little to no standalone fair value, would inappropriately result in disqualifying the entire financial instrument from being considered solely principal and interest even though the hybrid instrument represents cash flows that are substantially payments of principal and interest. The proposed guidance gives no consideration to the significance of the feature in relation to the debt instrument as a whole; consequently, the impact to net income would not be proportional to the significance of the features. This same “less than significant” feature would have a significant impact to net income, because under the proposed guidance, the entire debt instrument would be recorded at FV-NI, resulting in additional and less decision-useful volatility in an entity’s income statement. Therefore, we recommend that the Board modify the SPPI test from “solely” payments of principal and interest to “substantially” payments of principal and interest. This modification would eliminate our concern that less than significant contractual features would drive accounting results for “plain vanilla” financial assets with prepayment and extension options, contingent cash flows and other modified economic relations.
Likewise, while the Proposed ASU provides an exception with regards to contingent payments where the probability is extremely rare, highly abnormal, and very unlikely, we believe this exception is too narrow. Just as only reasonably possible scenarios are to be considered when assessing leverage and interest rate features, we believe that probability should be taken into consideration when assessing a contractual provision that provides for the possibility of a contingent payment.

We are also concerned that application of the SPPI test could result in insignificant or unlikely contractual features determining the classification and measurement of financial instruments. We believe that many financial instruments may have contingent contractual cash flows that are, in general, fees that may not be related to credit, and we are unsure if this would preclude many financial assets from passing the SPPI test. For example, within many asset-backed securities, there may be fees in the underlying collateral that may be passed on through the trust’s cash flows. One example may be the annual fees or any late fees charged to the credit card borrower in a secured credit card transaction. It is unclear that under the proposal if such fees will preclude these securities from a measurement category other than FV-NI.

Another concern we have is related to the proposed implementation guidance on perpetual instruments which indicates that if there is a possibility that the security may defer interest and not accrue additional interest on that deferred interest, it would fail the SPPI test. Outside of perpetual instruments, we believe that the majority of beneficial instruments that are tranch based on subordination have this type of deferral feature. There is a possibility to defer interest without default and those cash flows are diverted to the highest tranche either temporarily or permanently. Currently, if this occurs, debt securities are impaired for these shortfalls of interest. Theoretically, the likelihood of these deferrals would already be considered as part of the credit loss allowance proposed in the Financial Instrument Expected Credit Loss model. Therefore, we do not believe a deferral feature should be a consideration when determining the classification and measurement of an instrument. Furthermore, we would like clarification that in any scenario where there is the potential for a financial instrument holder to collect less than principal and interest (i.e., bond purchased at a premium or bond which does not require interest on interest when not paid timely) the instrument would fail the SPPI as the instrument still provided solely payments of principal and interest. Any possible risks related to the collection of those payments would be appropriately addressed through the Current Expected Credit Losses Proposal.

**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?

Yes. We believe the definition of principal should be expanded to include repayment of the principal amount at maturity or other settlement. This would ensure more “plain vanilla” prepayable debt instruments with a discount or premium purchased in the secondary market would pass the SPPI test. By expanding the definition of principal, the prepayment amounts would substantially represent unpaid amounts of principal and interest on the principal outstanding.

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

No. We believe that the application guidance on how to evaluate whether the credit risk exposure inherent in a beneficial interest in a structured security that is equal to or lower than the credit exposure in the underlying pool of financial assets is insufficient. While we disagree with the underlying premise of introducing the evaluation of credit risk into the determination of classification and measurement, if the Board chooses to retain this criterion, we believe a more appropriate approach is to use a probability-weighted expectation of credit losses to obtain a weighted-average range of expected losses within the pool and each tranche to determine whether the exposure of
a tranche is disproportionately more or less than the average exposure of the underlying pool. This approach is consistent with the application guidance provided by the IASB.

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?

Yes. We agree with the proposed amendments; however, we believe that the Board should consider incorporating the notion of significance in relation to all contractual features by changing the SPPI test from “solely” payments of principal and interest to “substantially” payments of principal and interest.

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?

Yes. We believe the application guidance is sufficient. However, as discussed throughout this letter, we strongly suggest that the Board modify the SPPI test from “solely” to “substantially” payments of principal and interest.

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?

No. As noted in Question 4 above, we recommend the Board change the SPPI test from “solely” payments of principal and interest to “substantially” payments of principal and interest. The proposed look-through approach to beneficial interests is overly burdensome and effectively requires detailed evaluation of the terms of the underlying pool of instruments as well to determine if the proposed criteria are met to be classified in a category other than FV-NI. We have concerns that the level of detailed information necessary to evaluate the underlying pool in such a detailed manner, so as to pick up on features such as contingent payments for example, which have a low likelihood of being assessed, may not be readily available and even if it were, it would be extremely burdensome to perform such an assessment. The proposed guidance for beneficial interests will result in many, if not most, beneficial interests being recorded at FV-NI (i.e., most subordinated tranches as well as insignificant features and the potential to defer interest affecting the SPPI test) and as such would not provide decision useful information to financial statement users when these investments are not held for trading 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?

Yes. Overall, we support the proposed amendments related to the business model for non-insurance entities. However, we believe the Board should include a FV-OCI election for assets supporting insurance liabilities. The FV-OCI election should be limited to assets backing liabilities in the scope of the insurance contracts proposal, where changes in the discount rate are recorded in other comprehensive income. This FV-OCI option would ensure assets backing insurance liabilities that could potentially fail the SPPI test would not subsequently be classified in a business model that is inconsistent with an insurer’s business strategy (i.e., FV-NI), avoiding potential accounting mismatches.

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?
Yes. We believe the application guidance is sufficient.

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?

No. We support a principle based approach and the exercise of professional judgment with respect to tainting. We believe the guidance provided in the proposal for when sales are inconsistent with the AC and FV-OCI business models is adequate.

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?

Yes. We support the proposed amendments.

Initial Measurement

Questions for All Respondents

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

Yes. We agree that the initial measurement for financial instruments should be based on the subsequent measurement for financial instruments.

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
   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?

Yes. We believe the fair value options provide decision-useful information.

Questions for All Respondents

Question 16: Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?
Yes. We believe the AC category reflects how entities generally settle their own financial liabilities. We also agree with the proposed exceptions.

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?

Yes. The proposed guidance would avoid an accounting mismatch between a nonrecourse financial liability and its respective financial asset which would appropriately reflect the economics of this transaction. We request a similar FV-OCI option for assets supporting insurance liabilities as described in the response to Question 10.

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?

Yes. We agree with the proposed amendments.

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?

Yes. We support the proposed amendments, which would provide a practicability exception. We also suggest the Board provide a similar practical expedient for loans without readily determinable fair values.

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 agree that an entity should have the ability to separately assess and separately apply tax planning strategies (i.e., hold to maturity) when considering the need for a valuation allowance on its deferred tax assets arising from unrealized losses on debt instruments. Recognizing and addressing the uniqueness resulting from the interaction of the accounting requirements in ASC 740 and ASC 320 is very helpful and will further support accuracy and consistency within the financial statements.

However, specific clarification may be warranted to avoid unintended consequences and possible inconsistencies among entities in the future. For example, clarification could assure that (1) one can continue to support unrealized losses in OCI where a company has carryback potential, the ability to generate future taxable income (whether ordinary or capital) and/or other deferred tax liabilities that can be used to support the unrealized loss; (2) unrealized gains in OCI can be used to realize other deferred tax assets regardless of whether or not the deferred tax asset originated in OCI and (3) a deferred tax asset pertaining to the fair value of OCI debt instruments that would simply reverse over time as the unrealized losses reverse would not require future taxable income to support the realization of the deferred tax asset. We suggest including clarifying language in the guidance, or within the basis for conclusions to illustrate the intent of separate evaluation and the use of tax planning strategies consistent with current practices. Additionally, we encourage the Board to replace “shall” with “can” to allow companies flexibility in applying tax planning strategies in the future.
Furthermore, we believe that the definition should be broadened to encompass deferred tax assets on unrealized losses from all debt instruments for which similar tax planning strategies are prudent and feasible. As a result of the proposed SPPI test, certain debt instruments that are not held for trading purposes will be classified as FV-NI, whereby an entity could make a similar assertion of holding to recovery/maturity as a tax planning strategy similar to debt instrument classified as FV-OCI. Accordingly, the proposed changes for deferred tax assets on unrealized losses should be broadened to include unrealized losses on financial assets that are measured at fair value (either FV-OCI or FV-NI) as long as the asset is not held for trading purposes.

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?

No. We believe all features should be evaluated based on their significance. If the feature significantly alters the cash flows then we are comfortable with the entire instrument being measured at FV-NI. Therefore, if the Board adopts this amendment, we strongly encourage the Board to modify the SPPI test from “solely” payments of principal and interest to “substantially” payments of principal and interest. This modification would reduce our concern that less than significant contractual features would result in associated debt instruments being reported at FV-NI.

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?

Yes. We agree with the proposed amendments.

Presentation

Questions for Users (Questions 23-25) ➔ N/A - We do not have a view on these proposed amendments.

Questions for Preparers and Auditors

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?

Yes. We agree with the proposed amendments.

Disclosures

Questions for Users - (Questions 27 and 28) ➔ N/A - We do not have a view on these proposed amendments.

Questions for All Respondents

Question 29: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?
No. We are concerned about the proposed parenthetical disclosures and groupings on the balance sheet. We believe the proposed parenthetical information and groupings would unnecessarily add complexity to the face of the financial statements as the same information would be presented in the disclosures. Furthermore, given the XBRL tagging implemented by public companies, the information contained in the footnotes is readily available to financial statement users. Considering the resources and costs needed to implement new disclosures, we strongly support the Board's tentative decision to remove the current requirement for nonpublic entities to disclose fair value information for financial assets and liabilities.

Transition and Open Effective Date Information

Questions for All Respondents
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?

Yes. We support the Board's tentative decision to permit early adoption of proposed presentation requirements related to an entity's own credit risk for financial liabilities that are designated under the fair value option.

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

No. Nonpublic entities will need additional time and resources to carefully assess our processes, information systems and controls to properly adopt the new disclosures.

Questions for Preparers and Auditors
Question 32: How much time is needed to implement the proposed guidance?

The Board should allow entities that will be significantly impacted by the insurance contract project and financial instruments project, an effective date that is aligned. This will allow insurance companies enough time to implement new accounting standards on classification and measurement of financial instruments, expected credit losses, and insurance contracts, all of which are vital to their financial statements, and minimize confusion to their financial statement users.

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

Yes. We believe the proposed transition provisions are operable.

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?

Yes, but we respectfully request that the Board clarify whether equity method held for sale criteria should be continually evaluated or whether it only applies at the time of purchase (e.g., initial recognition).

We also believe a literal interpretation of the held for sale equity method criteria may result in many joint ventures, partnerships, etc. meeting this criteria because they are limited life entities and have a defined expected
exit date. We do not believe the Board’s intent was to cast a wide net over held for sale equity investments, but we ask the Board to clarify. This is of particular importance to insurance companies as we often have regulatory requirements to include expected dissolution dates for these types of investments in our defined exit strategies.

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?

Yes. We agree with the proposed amendments.

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?

N/A - We do not have a view on this proposed amendment.

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?

N/A - We do not have a view on this proposed amendment.