May 31, 2013

Submitted via email (director@fasb.org)

Technical Director
File Reference No. 2012-260
Financial Accounting Standards Board
401 Merrit 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference: No. 2012-260, Proposed Accounting Standards Update:
Financial Instruments – Credit Losses (Subtopic 825-15)

Apple Inc. ("Apple" or the "Company") appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB" or the "Board") exposure draft, Proposed Accounting Standards Update Financial Instruments – Credit Losses (Subtopic 825-15), issued December 20, 2012 (the "ED"). We support the FASB's efforts to revise and improve the accounting for financial instruments and acknowledge the effort on the Board's part to develop the ED. However in our opinion, the ED should be modified in a number of ways to avoid unnecessary and costly changes to existing accounting and disclosure requirements that will provide limited, if any, value to users of our financial statements. Specifically, we suggest that:

- The scope be amended to exclude marketable debt instruments recognized at fair value with qualifying changes in fair value recognized in other comprehensive income ("FV-OCI") (ASC 320);
- The guidance be amended to eliminate day 1 impairments as it relates to securities recorded at FV-OCI;
- The time frame for expected credit losses be limited to those expected to be realized within 12 months;
• The guidance related to the practical expedient be amended to make it more practical and useful; and

• The disclosure requirements be amended to reduce the volume and complexity of information required.

Our views on these matters are explained in more detail in the following paragraphs.

We maintain a diverse portfolio of available-for-sale ("AFS") securities consisting primarily of liquid, highly-rated, investment-grade marketable debt securities. We invest in these securities with the objective of minimizing the potential of principal loss. Our securities are held for general corporate purposes and are largely recorded at fair value with changes in fair value recorded in other comprehensive income. As of March 30, 2013, our portfolio had a fair value of approximately $145 billion.

The scope of the proposed guidance makes no distinction between an AFS portfolio and a portfolio which is recognized at amortized cost. Our AFS portfolio is highly liquid, readily convertible to cash and recognized at FV-OCI. Because of the make-up of the portfolio, the fair value of our securities in a market transaction is readily available. This is very different than the type of portfolio that is recognized at amortized cost and typically held-to-maturity. We believe the guidance should reflect the very different nature of these portfolios. Accordingly, we believe FV-OCI securities should be removed from the scope of the ED and remain subject to the current guidance. Under the current guidance, unrealized gains and losses are clearly disclosed and aged. Users of our financial statements have become comfortable with the current disclosure and impairment guidance, which provide readers with sufficient information to overlay their own decisions as to the ultimate recoverability of those securities. We do not believe changing the impairment guidance as it relates to FV-OCI debt securities introduces sufficient benefit, and may cause confusion.

The ED requires an entity to assume the possibility of a credit loss, even if management does not expect that credit loss to occur. Entities would be required to record the value of all future expected credit losses at the time the debt security is acquired, thus accelerating “loss” recognition to day-1 when compared to the current model. We struggle with the conceptual merits of recognizing a day-1 impairment loss when an entity has purchased a financial asset at fair value in a market-based transaction. We believe that at the time of purchase, expected impairment losses are reflected in the interest rate demanded by the market and ultimately realized in the transaction. Recognizing an additional day-1 impairment loss, when an investor could avoid that loss through the sale of the
security, would not only ‘double count’ the effect of those losses (through the interest rate and proposed reserve) but also improperly reflect the economics of the market-based transaction.

Further as it relates to U.S. Treasuries that mature in 6 to 12 months for example, expecting a loss on these instruments runs contrary to their risk free benchmark status. Although required by the ED, we do not believe it would be representationally faithful to apply any reserve against such securities for which we, and largely the world, believe no loss is expected.

Under current guidance, an impairment is recorded when both the security’s fair value is less than the cost basis and the contractual cash flows are not expected to be collected. While there has been criticism of the current model, we fail to see how the proposed model would achieve a significantly different result or provide additional decision-useful information. For example, prior to the financial crisis in 2008, we do not believe that any company could have “expected” the impact of the financial crisis on the value of its securities, and therefore the day-1 impairment losses recorded under the proposed model would have been significantly less than those ultimately realized.

Estimating expected events over a 1 to 2 year time horizon is challenging at best, and as the time horizon is extended, the confidence and reliability of a forecast diminishes significantly. In almost all circumstances, the losses required to be recognized by the ED will exceed the amount management believes is likely to be realized. As it relates to FV-OCI securities, in most cases debt issuers do not default and therefore the amount ultimately realized will exceed the proposed loss-adjusted carrying amount, resulting in gain recognition when the allowance for credit losses is ultimately reversed. In a worst-case situation where the issuer ultimately defaults, both the current and proposed loss models would bear similar results. Either an entity would not have foreseen the default and reserves under both models would be insufficient, or the entity could foresee the potential default and therefore would likely record an impairment under both models as it would not expect to collect the cash flows. Because of the inherent uncertainty in long-range forecasting, we suggest that loss forecasts be limited to those losses expected to be realized within 12 months based on reasonable and supportable forecasts. Requiring long-range entity-specific forecasts of lifetime future expected losses will result in recognition of highly speculative losses, will add unnecessary cost and complexity, and will create inconsistent reporting among entities as each entity models its own expectations as to losses.
We support the FASB’s ED to include a practical expedient, allowing companies the ability to forgo recognizing losses in certain limited circumstances. However, the expedient as written does not provide sufficient flexibility and judgment to be useful to companies. As an example, in a period of fluctuating interest rates an entity could find itself gaining and losing the ability to utilize the practical expedient solely due to changes in interest rates rather than changes in the underlying credit quality of the investments. Many companies, like Apple, hold very large portfolios of highly-rated securities for which expected credit losses are insignificant. However while the credit losses are expected to be insignificant, the fair value of these securities are impacted by many additional factors such as interest rates, liquidity, etc. As a result, the securities could fluctuate between an unrealized gain or loss position due entirely to circumstances other than credit. Because the practical expedient requires that for each security both the fair value be greater than cost and credit losses be insignificant, credit losses may be recognized even when there has been no change in the credit risk of the investment of these high quality investments. As an example, an entity may hold two debt securities of the same issuer but because of the timing of purchase and movement of interest rates, it would record a credit loss for one and utilize the practical expedient for the other creating disparate accounting treatment for these securities. As a result, companies may abandon the practical expedient rather than confuse a reader with the volatility caused by recognition and reversal of “credit losses” caused by movements in interest rates or other non-credit related attributes.

In today’s low interest rate environment, it is likely that many securities with insignificant credit risk would not meet the requirements of the practical expedient due to rising interest rates rather than a change in the underlying credit risk. We suggest modifying the requirements of the expedient such that investments for which *either* fair value is greater than or equal to amortized cost or for which the expected credit losses are insignificant, be allowed to utilize the practical expedient.

The disclosures required in the ED are substantially more extensive than those required by current U.S. GAAP. For non-financial institutions, we believe the proposed disclosures detract from the current disclosures and may confuse users of the financial statements rather than providing additional decision-useful information. There is already a concern that current financial statement disclosures are complex and excessive, and we believe the proposed disclosures in the ED will unnecessarily add to the complexity.
We support the efforts of the FASB and International Accounting Standards Board ("IASB") in their continued efforts to converge guidance. However, we strongly urge the two Boards to continue to work toward converged standards to increase comparability and reduce the time and effort spent by global companies to maintain different accounting records to comply with divergent accounting standards.

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We appreciate the opportunity to comment on this important topic. We believe the existing framework for FV-OCI securities is effective and the Board should consider modifying key aspects of the standard should it decide to move forward with this proposal. If you would like to discuss our response further, please contact me at (408) 862-1401 or Joel Greenberg at (408) 974-1888.

Sincerely,

Luca Maestri
Vice President, Controller and Principal Accounting Officer
Apple Inc.