February 25, 2016

Technical Director
File Reference No. 2015-350
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, Fair Value Measurement (Topic 820), Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurement

Dear Technical Director:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, Fair Value Measurement (Topic 820), Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurement (the Proposed ASU). We have also contributed to the comment letters being submitted by the Global Financial Institutions Accounting Committee (GFI) of the Securities Industry and Financial Markets Association (SIFMA) and the American Bankers Association (ABA). Bank of America Corporation (BAC) provides a diverse range of banking and non-banking financial services and products domestically and internationally. We are one of the largest banks in the U.S. in terms of total assets and currently have over $600 billion of assets and over $175 billion of liabilities measured at fair value. We have been and continue to be very focused on the efforts of the Financial Accounting Standards Board (FASB) related to fair value measurement disclosures and have previously provided comments on prior proposed updates related to these disclosures.

We understand that the FASB is reviewing the fair value measurement disclosures in connection with a disclosure framework project in which the objective is to improve the effectiveness of disclosures by providing clear information that is most important to financial statement users. We also understand the emphasis of this overall project is on relevance, not volume, of disclosure. However, while not a specific objective of this project, it was noted during deliberations that a sharper focus on important information may result in a reduced volume of disclosures provided. We agree with the overall objective of providing effective and relevant disclosures and support the FASB’s efforts in reviewing the fair value measurement disclosures in the context of this broader project. BAC, in addition to most financial institutions, makes significant disclosures related to fair value measurements in the footnotes to the financial statements. For example, our 2015 Form 10-K filed with the Securities and Exchange Commission contained 18 pages of quantitative and qualitative disclosures about fair value measurements in the footnotes. Additional information is provided in Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A). We, therefore, support the proposal to remove certain current disclosures related to the amount and reason for transfers between Level 1 and Level 2 and valuation policies and procedures for Level 3 fair value measurements as we do not believe these disclosures provide decision useful information.
However, we disagree with the proposal to expand the disclosure of unrealized gains and losses for instruments held at the end of each reporting period to include Level 1 and Level 2 instruments. We do not believe this additional information will provide insight into earnings volatility for these instruments and believe this distinction could falsely imply that unrealized gains and losses are of a lesser quality than realized gains and losses. Furthermore, operational challenges exist in providing this additional information as trading systems have not historically been designed to distinguish between realized and unrealized gains and losses reported in earnings by fair value hierarchy classification as profitability is not evaluated nor risks managed in this manner. A separate process exists for leveling instruments and providing Level 3 unrealized gains and losses, which represent a small sub-set of the total fair value population, for the current financial statement disclosures. In our December 31, 2015 Form 10-K BAC reported $615 billion and $169 billion in Level 1 and Level 2 assets and liabilities, respectively, compared to $18 billion and $7 billion in Level 3 assets and liabilities. Substantial operational efforts and costs will be involved to isolate and report this information for Level 1 and Level 2 financial instruments due to the size and volume of transactions in these instruments each reporting period.

We also do not believe the proposed requirement to disclose the time period used to develop significant unobservable (Level 3) inputs will add further value to financial statement users in terms of better understanding an entity’s valuation methodologies. The current quantitative disclosure of the ranges of inputs for Level 3 instruments is performed at a consolidated level, therefore, the nature of this information loses relevance as a result of the aggregation of multiple underlying products. Level 3 inputs are generally based on implied market levels when available. In instances where implied market levels are not available, historical data points may be incorporated into Level 3 valuations, typically for longer-dated instruments. Obtaining historical data will involve additional costs as this information is not readily accessible in a database, therefore, manual intervention will be necessary to develop a process for providing this information for the financial statement disclosures.

Our responses related to specific questions posed in the exposure document follow in Appendix A.

We appreciate the opportunity to express our views in this letter. Should you have any questions, please feel free to contact Randall Shearer (980.388.8433) or me (980.387.4997).

Sincerely,

John M. James
Senior Vice President and Corporate Controller

cc: Paul Donofrio, Chief Financial Officer
    Rudolf Bless, Chief Accounting Officer
    Randall J. Shearer, Accounting Policy Executive
Appendix A – Selected Questions

Question 1: Would the proposed amendments result in more effective, decision-useful information about fair value measurements? If not, please explain why. Would the proposed amendments result in the elimination of decision-useful information about fair value measurements? If yes, please explain why.

We support the proposal to remove the disclosure of the amount and reason for transfers between Level 1 and Level 2 instruments. Since Level 1 and Level 2 instruments are based on observable market prices we agree that this information is not decision useful. We also support the removal of the disclosure of valuation policies and procedures for Level 3 fair value measurements and agree that this information does not meet the overall objective of providing useful information. However, we believe the current requirement to disclose the timing of transfers for Level 3 instruments may be useful in terms of understanding the amounts disclosed in the Level 3 rollforward. For example, a policy to transfer instruments in at the beginning of the reporting period will include all gains and losses for the period in the rollforward which could be helpful to a financial statement reader in terms of understanding the context of what is included. Therefore, we agree with retaining this requirement for Level 3 instruments.

We do not believe the proposed disclosure of the amount of unrealized gains and losses associated with Level 1 and Level 2 instruments measured at fair value will provide relevant or useful information. We understand from the Basis for Conclusions (paragraph BC20) that one of the reasons the FASB is proposing this additional disclosure requirement is due to feedback received from financial statement users that disclosure of unrealized gains and losses provide information about the volatility of fair value measurements. We do not agree that the disclosure of unrealized gains and losses will provide much greater insight particularly for Level 1 and Level 2 instruments which are liquid in nature, trade frequently and can be closed out at any time with minimal cost. For such instruments, we see earnings volatility generally arising due to high portfolio turnover during a given reporting period rather than from changes solely in the fair value measurement. For example, high turnover of a publicly traded equity security within a reporting period could lead to earnings volatility but generate minimal unrealized gains and losses. As a result, disaggregating unrealized gains or losses would not provide additional insight into future earnings volatility.

Additionally, risk management strategies are in place to significantly mitigate earnings volatility which encompasses instruments reported in different levels of the fair value hierarchy. For example, a Level 1 bond (e.g., U.S. Government security) could be hedged with a Level 2 derivative instrument (e.g., an interest rate swap). The cash flows on the interest rate swap are ongoing each reporting period. The nature of ongoing cash flows makes it difficult to distinguish realized versus unrealized gains and losses for this derivative instrument. Further, reporting unrealized gains and losses across multiple products disaggregated by level in the fair value hierarchy would not make this hedging relationship readily apparent and could present a distorted view of volatility to financial statement users. This is due to the strategy being presented on a gross basis in the disclosures for the Level 1 bond and Level 2 derivative instrument where the derivative instrument may alternate between an asset and a liability position.

We also note that the concept of fair value measurement does not distinguish between unrealized and realized gains and losses but rather focuses on the amount exchanged between two market participants at
the measurement date under current market conditions. Creating a distinction between realized and unrealized gains and losses falsely implies that unrealized gains and losses are of a lesser quality than realized gains and losses. If the fair value measurement concepts are properly applied, the distinction between unrealized and realized gains and losses is irrelevant. Furthermore, we generally do not manage transactions that are measured at fair value based on changes in cash flows since both unrealized and realized gains and losses equally impact net income. A significant portion of Level 1 and Level 2 transactions are driven by client demand which is not an indicator of the quality of earnings for these instruments.

We understand from the Basis for Conclusions (paragraph BC21) that another reason the FASB is proposing this disclosure requirement is because it may be difficult for financial statement users to track changes in fair value instruments to the appropriate income statement line items. Numerous financial statement disclosures related to income statement geography for instruments measured at fair value are currently required including the requirement in Accounting Standards Codification (ASC) 820, Fair Value Measurements, to disclose income statement geography for Level 3 instruments and the requirement in ASC 825-10-25, Fair Value Option, to disclosure income statement geography for financial instruments for which the fair value option has been elected. Additionally, further discussions are provided within disclosures of significant accounting policies in the footnotes to the financial statements as well as within the MD&A. We believe these current disclosures provide sufficient detail for financial statement users to understand where fair value measurements are being reported.

Finally, we note that paragraph ASC 820-10-50-1D(b) in the Proposed ASU includes the effects of changes in fair value on the amounts reported in the financial statements as one of the disclosure objectives. For the reasons outlined above, we do not believe that this proposed disclosure requirement will meet the broader objective of providing relevant and decision useful information to financial statement users and as such we suggest this language be removed. We believe the fair value disclosures should enable financial statement users to understand the methods, assumptions and inputs used in developing fair value measurements and that such disclosures should be consistent with how an entity manages risk. We also note that International Financial Reporting Standards (IFRS) do not require such disclosures. Therefore, we urge the FASB to reconsider this proposed requirement.

**Question 2:** Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

**Question 3:** Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

The proposed disclosures related to unrealized gains and losses for Level 1 and Level 2 instruments measured at fair value pose substantial operational challenges and costs to implement. Trading systems and sub-ledger systems do not track positions by fair value hierarchy classifications. Additionally, realized and unrealized gains and losses are not tracked and are not required to be separately disclosed by ASC 815 Derivatives and Hedging for derivatives with the exception of certain derivatives used in accounting hedges. This level of detail for Level 1 and Level 2 instruments is not utilized by management to evaluate the profitability of business segments or to manage risk. A separate process exists for
leveling instruments and reporting Level 3 unrealized gains and losses, which are a much smaller component of total fair value measurements, for the current financial statement disclosures.

BAC, like many global financial institutions, holds significant trading account assets and liabilities at fair value where large volumes (potentially thousands) of purchases and sales transactions are conducted on a daily basis during each reporting period for more liquid (i.e., Level 1 and Level 2) financial instruments. Given the large volume of activity in Level 1 and Level 2 trading instruments, it is extremely difficult to identify and track cost basis and cash flows at the transaction level. Additionally, certain instruments, such as mortgage backed securities and derivatives, trade as a portfolio which makes obtaining this information further challenging.

Isolating changes in unrealized gains and losses for Level 3 instruments which do not trade as frequently and are a smaller sub-set of the total fair value population for the current preparation of this disclosure is an extremely manually intensive process. This has led to methodologies being developed to derive unrealized amounts. As previously noted, in our December 31, 2015 Form-10K, we reported $615 billion and $169 billion in Level 1 and Level 2 assets and liabilities, respectively, compared to $18 billion and $7 billion in Level 3 assets and liabilities. Performing a manual process for Level 1 and Level 2 instruments will be challenging given the size and volume of activity, therefore, systematic enhancements will be required in order to capture this information solely for the financial statement disclosures. Year-to-date reporting of this information poses further challenges due to the high volume of transactions each period which generate realized gains and losses that are not systematically tracked at the individual instrument or fair value hierarchy level. Additionally, we question how useful a disclosure of unrealized gains and losses in isolation is for Level 1 and Level 2 instruments without the context of total gains and losses for these instruments.

We note that the FASB had previously proposed disclosure of unrealized gains and losses for all instruments measured at fair value in the June 2004 Exposure Draft on Fair Value Measurements. The rationale for this disclosure at that time related to providing insight into earnings quality. BAC, along with other global financial institutions, previously commented on this proposed disclosure citing limited usefulness of this information in relation to the significant operational costs and constraints involved in providing this information. The FASB decided to require this disclosure only for Level 3 instruments in order to address the cost/benefit concerns raised by financial statement preparers.

Given the substantial amount of operational effort and costs that will be involved to provide this information for Level 1 and Level 2 instruments which are based on observable market inputs involving little subjectivity, we urge the FASB to re-consider this proposed disclosure requirement. These disclosures are also not consistent with the disclosure framework objective of improving the effectiveness of disclosures by facilitating clear communication of information that is most relevant to financial statement users. We are also concerned that this proposed disclosure requirement will add to the already voluminous nature of the fair value disclosures with little additional benefit.

However, if the FASB decides to move forward with this proposed disclosure, we believe the level of disaggregation required should be clarified. The example of this disclosure provided in the Implementation Guidance in paragraph ASC 820-10-55-100A reflects the additional disclosure of the change in unrealized gains and losses for Level 1 and Level 2 instruments as an aggregated amount for each income statement line item for an entity’s assets at a given reporting period with a notation that a
similar disclosure should be separately provided for liabilities measured at fair value. However, the disclosure requirement in paragraph ASC 820-10-50-2 states that this information should be disclosed “...for each class of assets and liabilities.” We ask that the FASB clarify whether their intent is for this proposed disclosure to be presented in the aggregate for total assets and total liabilities or further disaggregated by class.

**Question 6:** The proposed amendments to paragraph 820-10-50-2(bbb) require that a reporting entity disclose the time period used to develop significant unobservable inputs. What would be the costs associated with including this disclosure? Would this disclosure provide more effective, decision-useful information?

We do not believe the proposed disclosure of the time period used to develop significant unobservable (Level 3) inputs would provide useful information to financial statement users. The current disclosure of the range of unobservable inputs for Level 3 instruments is performed at an aggregated level and includes multiple underlying products. We state in our current financial statement disclosures that this results in certain ranges being wide and unevenly distributed across the asset and liability categories disclosed. It is unclear how this additional information will add value to financial statement users in terms of further understanding an entity’s valuation techniques given this current level of aggregation and the diverse nature of the products included in each category.

Level 3 inputs are generally based on implied market levels when available. When not available, historical data points may be incorporated into Level 3 valuations. The time period for such historic data points varies with the tenor of the instruments being valued. For example, for short dated instruments, current data is generally the most relevant while longer dated instruments can incorporate historical information. The exact time period used in the Level 3 valuation is not a concrete variable that is separately tracked and maintained in a database. Therefore, obtaining this information will also involve a manually intensive process. Due to the lack of value of this information, we do not believe the costs involved in identifying and providing this additional level of detail are warranted.

We currently provide qualitative disclosures of our valuation techniques for Level 2 and Level 3 instruments and believe that this information in connection with the quantitative Level 3 data currently disclosed is sufficient for financial statement users to understand our valuation methodologies.

**Question 9:** How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by nonpublic business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? If yes to either question, please explain why.

If the FASB decides to continue to move forward with the proposed disclosures of unrealized gains and losses for Level 1 and Level 2 instruments and the time period used to develop Level 3 inputs, a sufficient amount of time will be required to establish a systematic and controlled process to gather and
report this information. Given the system constraints and substantial costs involved in extrapolating the data for these proposed disclosures, we strongly encourage the FASB to consider an effective date of at least two years from the date a final standard is issued.