March 6, 2019

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

Via email: director@fasb.org

RE: Proposed Accounting Standards Update, Targeted Transition Relief for Topic 326, Financial Instruments—Credit Losses

File Reference No. 2019-100

Dear Ms. Cosper:

Capital One Financial Corporation ("Capital One")\(^1\) appreciates the Board’s continued responsiveness to implementation concerns raised by stakeholders and the opportunity to provide comments on the Exposure Draft, *Proposed Accounting Standards Update, Targeted Transition Relief for Topic 326, Financial Instruments—Credit Losses* ("the Exposure Draft"). We support the Board’s efforts to provide transition relief for Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* that would increase comparability of financial statement information and ask that you please consider the comments and suggestions we have provided below.

**Scope of the Exposure Draft**

In the Exposure Draft, entities are permitted to elect the fair value option in accordance with Subtopic 825-10 (the “Fair Value Option Election”) for financial instruments within the scope of Subtopic 326-20, except for held-to-maturity debt securities measured at amortized cost basis (“HTM Securities”).\(^2\) We acknowledge the Board’s exclusion of HTM Securities from the scope of the Fair Value Option Election based on the Board’s consideration of potential transition complexities and subsequent questions that could arise from including such securities in the scope. Given that exclusion, we encourage the Board to consider permitting a one-time election

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\(^1\) Capital One Financial Corporation (www.capitalone.com) is a financial holding company whose subsidiaries, which include Capital One, N.A., and Capital One Bank (USA), N.A., had $249.8 billion in deposits and $372.5 billion in total assets as of December 31, 2018. Capital One, N.A. has branches located primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia, and the District of Columbia. A Fortune 500 company headquartered in McLean, Virginia, Capital One trades on the New York Stock Exchange under the symbol “COF” and is included in the S&P 100 index.

\(^2\) ASC 825-10-15-4(a) permits entities to elect the fair value option for recognized financial assets, except for those excluded by ASC 825-10-15-5. Held-to-maturity debt securities are financial assets and are not excluded by ASC 825-10-15-5.
to transfer any eligible HTM Securities to available-for-sale (“AFS”) classification upon adoption of ASU No. 2016-13 (the “Transfer Election”). HTM Securities eligible for this election could be any HTM Security held by an entity as of that entity’s adoption date.

An entity’s determination of positive intent to hold securities to maturity is based on several considerations, including financial statement impacts. Because ASU No. 2016-13 significantly changes the impairment model, and therefore the financial statement impacts, for HTM Securities, adoption could cause entities to change their desire to hold certain HTM Securities to maturity. The Transfer Election would provide a means for entities to incorporate the impact of the changes introduced by ASU No 2016-13 in their intent to hold a security to maturity without calling into question their intent to hold other debt securities to maturity in the future. The Transfer Election would also provide entities relief from the complexities involved with maintaining different credit impairment methodologies for portions of their investment portfolio that are similar to the complexities the Board is addressing with the Exposure Draft. Further, the Transfer Election would provide a means for entities to potentially avoid having two distinct impairment models and allowance amounts for identical securities solely based on classifications. Permitting the Transfer Election would be consistent with the Board’s permitting of a similar election in relation to adoption of ASU No.2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.\(^3\)

**Transition**

We support the Board’s proposal regarding transition for the Fair Value Option Election, which, for items measured at fair value under such election, would require the difference between carrying amount and fair value to be included in the cumulative effect adjustment to opening retained earnings required by ASC 326-10-65-1(c). If the Board allows the Transfer Election, we encourage the Board to provide separate transition guidance for securities that would require unrealized gains or losses existing at the time of any transfer made under the Transfer Election to be recorded in accumulated other comprehensive income. This approach would be consistent with both (1) the guidance in ASC 320-10-35-10(c)\(^4\) for such transfers in general, and (2) the guidance in ASC 815-20-65-3(e)(7)\(^5\) for such transfers made under the above-mentioned election provided by ASU No. 2017-12. Further, it would prevent complexities and lack of

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\(^3\) In the Basis for Conclusion of ASU No. 2017-12, the Board indicated “Certain financial institution stakeholders classify certain beneficial interests in the held-to-maturity category rather than the available-for-sale category because prepayment features embedded in the collateral make fair value hedge accounting difficult to obtain. By introducing the last-of-layer method in this Update, applying the fair value hedging model for beneficial interests will be less burdensome. Financial institution stakeholders requested transition relief to reclassify beneficial interests from the held-to-maturity category to the available for-sale category. The Board concluded that an entity should be able to reclassify held-to-maturity securities that qualify for the last-of-layer method.”

\(^4\) ASC 320-10-35-10(c) indicates “For a debt security transferred into the available-for-sale category from the held-to-maturity category, the unrealized holding gain or loss at the date of transfer shall be reported in other comprehensive income.”

\(^5\) ASC 815-20-65-3(e)(7) indicates “An entity may reclassify a debt security from held-to-maturity to available-for-sale if the debt security is eligible to be hedged under the last-of-layer method in accordance with paragraph 815-20-25-12A. Any unrealized gain or loss at the date of the transfer shall be recorded in accumulated other comprehensive income in accordance with paragraph 320-10-35-10(c).”
transparency that could otherwise result from requiring such amounts to be recorded in retained earnings.

Sincerely,

/s/ Timothy Golden

Timothy Golden
Controller
Capital One Financial Corporation