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To: [Director - FASB](#)
Cc: pk@iasb.org; [Ravimohan, P R](#)
Subject: FW: Comments on FASB's proposed ASU
Date: Friday, October 15, 2010 3:00:40 AM

Dear Sir

The comments of the Reserve Bank of India on the proposed Accounting Standards Update (ASU) released by the FASB on 26 May 2010 containing the proposals for a new comprehensive standard on financial instruments are as below:

- In our opinion, the FASB proposals would mean an expansion of fair value measurement for financial instruments, especially for loans and certain deposit categories which is not in conformity with the IASB's proposals as also BCBS guiding principles for replacement of IAS 39 issued in August 2009. FASB should consider the BCBS guiding principles while finalizing the proposed ASU on financial instruments. This would facilitate the attempts towards convergence between FASB and IASB.
- The mixed attribute model of the IASB is essential for proper representation on earnings and cash flow generated by banks and provides the flexibility to them to classify and measure the financial instruments in a manner that best reflects the underlying economic substance of the transaction. For instance in many EMEs including India, most of the loans are contracted by banks with the intention to hold them and classifying and measuring the loans under Amortised Cost category would be in line with the business model, characteristics of the particular asset as well as the management's intention in holding the assets .
- Fair valuing loans and taking the fair value gains and losses (though unrealised) in equity as proposed by FASB would not be acceptable. The volatility in the income statement and the impact on regulatory capital cannot be ignored.
- Fair value measurement came in for significant criticism in the aftermath of the

global financial crisis on account of its failure to deal with illiquid markets and distressed sales. Many times there could be substantial issue of measurement uncertainty associated with the financial instruments which makes their “fair values” unreliable.

- In many Emerging Market Economies (EMEs) including India, deep markets for most of the instruments do not exist and therefore active market values and quotes may not be available for a broad range of investments/assets held by banks. Similarly loans are not traded and fair value of loans would be difficult to ascertain. In this backdrop, fair values may have to be imputed using valuation techniques, which would again be based on a lot of assumptions, and unobservable inputs, which may not be desirable.
- The impairment requirements in FASB proposal is different from the IASB proposal. The starting point of the FASB model is fair value measurement whereas the IASB uses amortised cost measurement. There is a need for convergence in this aspect also.
- In view of the above, it would be desirable for the FASB to work towards greater alignment with IASB proposals in respect of classification of financial instruments. Moreover, in the backdrop of the G 20 recommendations for global convergence in accounting standards, convergence in the area of classification and measurement of financial instruments is of critical importance for regulators.

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