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Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk CT, 06856-5116 File Reference No. 2013-220

Dear Ms. Cosper:

Verizon Communications Inc. (Verizon) appreciates the opportunity to comment on the proposed Accounting Standards Update—Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Verizon is one of the world's leading providers of communication services and is a registrant with the SEC.

We support the Board's objective of this proposed Update to provide financial statement users with more decision-useful information about an entity's involvement with financial instruments, while reducing the complexity in accounting for those instruments. However, we do have some concerns with the proposal as discussed below.

Cash Flow and Business Model Tests

Under the FASB's proposal, financial assets would be classified and measured by first considering whether the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI), the contractual cash flow characteristics test. Financial assets that pass the SPPI test would be subsequently measured at amortized cost, FV-OCI or FV-NI, depending on the entity's business model for managing them. Investments in debt securities that do not have features that modify the amount and / or timing of cash flows will generally pass the proposed SPPI test and will be subsequently measured at FV-OCI if the entity's business model is to Hold and Sell. However, under the FASB's proposal, financial assets that fail the SPPI test, such as investments in equity securities not accounted for under the equity method of accounting, would be subsequently measured at FV-NI.

Verizon believes that the FASB's proposal to recognize changes in FV-NI for investments in equity instruments may create unexpected volatility in net income with questionable benefit to users of financial statements. It may also create differences in accounting for debt and equity investments that are held for the same business purpose and may dis-incent entities from investing in equity instruments. We believe that the FASB should eliminate the proposed contractual cash flow characteristics test and retain the business model test because it is more representative of the underlying economics and reflects how management views performance. Verizon believes that carrying investments at fair value on the balance

sheet is adequate to inform investors of the investment value, without also adjusting net income for investments for which the entity's business model is Hold and Sell.

To illustrate our point, Verizon has a wholly owned consolidated captive insurance company that has a portfolio of investments in debt securities and a certain amount of equity securities. The Captive's business model for managing debt securities is to use the investment proceeds to settle insurance liabilities as they come due and to buy and sell debt securities to ensure that the portfolio generates enough cash to settle insurance liabilities similar to the proposed Hold and Sell model. The business model for managing its equity securities has a similar purpose but adds a dimension of diversity, potential growth and overall return to the total portfolio.

Equity Method of Accounting

The FASB's proposal provides upon the initial qualification of an investment accounted for under the equity method of accounting, an investor shall evaluate whether it holds the investment for sale. It further provides that an investor shall consider an investment for which both of the following indicators are present to be held for sale:

- a) The investor has identified potential exit strategies even though it may not yet have determined the specific method of exiting the investment.
- b) The investor has defined the time at which it expects to exit the investment, which may be either an expected date or range of dates or a time defined by specified facts or circumstances, such as achieving specified milestones or the stated investment objectives of the investor.

Verizon believes that the proposed held for sale criteria is too broadly defined for investments accounted for under the equity method of accounting and may lead to unintended consequences. For example, investments in limited life entities, such as investments in affordable housing projects, may unintentionally meet the held for sale criteria because they have a defined time for exit. Also, an equity method investments in which the parties have the right to dissolve or in which the controlling interest has a call option may unintentionally meet the held for sale criteria. We do not believe that this is the FASB's intention because in neither of these examples are the investments marketed for sale. We urge the FASB to provide additional clarification of the two proposed held for sale criteria.

Conclusion

Verizon urges the FASB to eliminate the proposed contractual cash flow characteristics test and retain only the business model test. We also request that the FASB provide additional clarification of the held for sale criteria for investments accounted for under the equity method of accounting.

Thank you for the opportunity to comment. We would be pleased to discuss our comments in more detail with members of the Board or staff.

Sincerely

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