
Technical Director,
File Reference No. 2013-220
FASB
401 Merritt 7,
PO Box 5116,
Norwalk, CT 06856-5116

March 28, 2013

International Accounting Standards Board
30 Cannon Street London
EC4M 6XH United Kingdom

Reference: FASB Reference No. 2013-220, Proposed Accounting Standards Update Financial Instruments—Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities and IASB Exposure Draft ED/2012/4, Classification and Measurement: Limited Amendments to IFRS 9. Proposed amendments to IFRS 9 (2010)

Dear Technical Director:

Duff & Phelps appreciates the opportunity to provide comments on the above referenced proposed ASU and Exposure Draft to FASB and IASB, respectively.

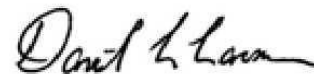
Our valuation advice, particularly with regards to financial reporting, is sought by hundreds of global clients annually as we work with them in developing pragmatic solutions for applying fair value techniques that are acceptable to the public accounting community. We believe that our unique perspective in the practical application of valuation related accounting principles -- both under United States generally accepted accounting principles and international financial reporting standards -- has particular relevance to the Boards and its constituency -- as it relates to the accounting standards referenced above.

We would be pleased to further discuss our comments with the Board and staff. Please direct any questions to either of us via the contact information set forth below.

Sincerely,



Jonathan Jacobs
Managing Director
Global Banking Leader



David L. Larsen, CPA
Managing Director

Duff & Phelps Corporation (NYSE: DUF) is a leading independent valuation consultancy and financial advisory firm

FASB/IASB

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Response to Proposed ASU:
Recognition and Measurement of
Financial Assets and Financial
Liabilities and
Exposure Draft on Classification and
Measurement: Limited Amendments to
IFRS 9

General Observations

We are pleased to provide comments on the FASB and IASB financial instrument recognition and measurement documents, *Proposed ASU: Recognition and Measurement of Financial Assets and Financial Liabilities*, and *Exposure Draft on Classification and Measurement: Limited Amendments to IFRS 9*, respectively. We feel that the Boards have made remarkable progress on convergence in this phase of the project, as evidenced by the largely harmonized proposals and amendments to the accounting for financial instruments.

We believe that an approach to classification and measurement of financial assets based on both cash flow characteristics and business models is conceptually correct as the accounting for financial instruments should integrate the underlying business model and operations with the assets and liabilities necessary to execute that business strategy. Financial reporting that is aligned with the business model employed by management and that reflects the characteristics of the cash flows to be generated by the instruments would enable users of financial statements to evaluate the entity's strategic decisions and operations on a consistent and comparable basis to its peers. This reporting perspective is consistent with the market participant view of the business, given the entity's business model.

However, notwithstanding the progress made this far, even if FASB and IASB have reached an agreement on the broad principles, US GAAP and IFRS recognition and measurement differences will remain for various reasons. While we acknowledge that some of these differences arise from other GAAP/IFRSs (for example, different definitions of derivatives, or different interpretations of the nature of financial guarantees) and would require changes in the accounting requirements that are not easily made in the short term, there are other differences that should be addressed and eliminated. We urge the Boards to use the momentum created through this joint project and bring the existing guidance closer together.

Eliminate Differences Where Feasible

Lack of convergence is costly for both preparers and users of financial statements, and there are various areas where better convergence can be achieved, ranging from seemingly small changes to more substantive changes, all within the scope of the Boards' respective current financial instruments standards. A few examples include:

- Both Boards would require equity investments (other than those that qualify for the equity method of accounting or result in

consolidation) to be measured at FV-NI, however, IFRS provides a FV-OCI option. To the extent a FV-OCI option is intended to mitigate the volatility arising from investments held for strategic purposes, it should be noted that volatility does exist, whether or not it is conveyed by the selected measurement attribute and regardless of where in the financial statements it is reported. Therefore, this is an example of an area in which convergence could seemingly be easily achieved.

- Loan commitments, a revolving line of credit or a commercial letter of credit would be measured on the basis of the likelihood of classification of the related drawn loan. However, differences remain in the accounting for fees received upon issuance of a loan commitment based on the probability of exercise of the loan. Under ASC 310-20, the fees received would be amortized over the commitment period if the funding of the loan is *remote* (or otherwise would be deferred as a yield adjustment), whereas IFRS 9 would require this treatment if the funding of the loan is *not probable*. The existence of dissimilar thresholds creates unnecessary differences where they can be easily eliminated.
- The treatment of fair value changes due to own credit risk of debt liabilities would also differ. US GAAP would require recycling of cumulative credit risk changes from OCI into NI upon settlement of the liability, whereas IFRS 9 does not require such recycling. In this case as well, the differences in the geography of the reporting are unnecessary.
- Differences remain in the criteria for bifurcation of hybrid financial instruments. We recommend that the Boards align those requirements.
- While both the FASB and IASB models use the same two classification and measurement criteria for financial assets, IFRS 9 applies the business model criterion before the contractual cash flow characteristics criterion, which is in reverse order to the FASB proposal. If the two Boards in fact believe that the order in which the criteria are applied should not affect the outcome, this would be all the more reason to have the same requirement in both sets of guidance.
- Differences in wording and application guidance may lead to different interpretations and implementation in practice that may not have been intended by the Boards.

Exceptions Dilute the Principle

Practicability exceptions, especially when wider in scope, call into question the appropriateness of the accounting principle to which the exception applies. We urge the Boards to minimize exceptions to accounting principles and to the extent that they do exist align them. For example:

- The FASB's proposal would require equity investments without readily determinable fair values (other than those that qualify for the equity method of accounting or result in consolidation) to be measured at cost less any impairment and to be adjusted for observable price changes (a practicability exception), while IFRS 9 provides a practical expedient for unquoted equity investments which provides indications of when cost approximates fair value and is more limited in scope than FASB's practicability exception. The issue is that exceptions dilute the principle, especially when the principle can be implemented in practice.
- More importantly, in this instance, we do not believe the exception should exist at all. On a conceptual level, ASC Topic 820 provides guidance on measuring fair value when there is not an observable market price. Although such equity investments would be categorized within Level 3 of the fair value hierarchy, the Boards have determined in their fair value measurement standards that the lack of an observable market does not result in an inability to measure fair value.

On a practical level, fair value can and is computed regularly by Investment Companies/Entities who often make investments in the equity of unquoted entities, and are able to estimate the fair value of all financial instruments. Furthermore, fair value is computed regularly in business combinations for a variety of assets and liabilities, including unquoted equity investments and non-controlling interests that do not have observable markets. Therefore there is no reason that other entities would not be able to estimate fair value of equity investments without readily determinable fair values.

We also note that the IFRS Foundation published educational material about measuring the fair value of unquoted equity instruments in accordance with IFRS 9. Perhaps such educational material would be useful for entities applying US GAAP.

Conclusion

We strongly support the goal of establishing a single set of high quality financial reporting standards. The adoption of a substantially converged U.S. GAAP/IFRS approach to the recognition and measurement of financial instruments is a critical component of this common reporting framework and is key to financial stability.