



May 15, 2013

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

File Reference: 2013-220 Exposure Draft of a Proposed Accounting Standards Update, *Financial Instruments – Overall (825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*

Dear Ms. Cospers:

The 12 Federal Home Loan Banks (the “FHLBanks”) appreciate the opportunity to comment on the Financial Accounting Standards Board’s (the “FASB” or “Board”) Exposure Draft of a Proposed Accounting Standards Update, *Financial Instruments - Overall (825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* (hereinafter referred to as the “proposed Update”). The FHLBanks are government-sponsored enterprises that serve the public by enhancing the availability of credit for residential mortgages and targeted community development. The FHLBanks are financial cooperatives and SEC registrants.

The FHLBanks are supportive of a dual assessment framework that requires an assessment of the contractual cash flow characteristics and an assessment of the business model of a financial instrument to determine the recognition and measurement of the instrument. However, we do not believe that the guidance, as proposed, meets the Board’s objectives of providing users with more decision-useful information about an entity’s involvement in financial instruments, nor does it reduce the complexity in accounting for certain instruments. In particular, we believe the Board should give additional consideration to the following recommendations:

- The Board should replace the “solely payments of principal and interest” test (the “SPPI test”) for determining compliance with the contractual cash flow characteristics criterion with the current “clearly and closely related” guidance in ASC 815-15-25-26. The FHLBanks believe that entities have a thorough understanding of the current “clearly and closely related” guidance and that it is consistently interpreted and applied.
- The Board should reconsider the application of the fair value option for both financial assets and financial liabilities. We strongly support an entity’s ability to unconditionally elect to measure both financial assets and financial liabilities at fair value with changes in fair value recognized in net income (“FV-NI”) at initial recognition. We believe that the fair value option helps reduce the complexity of accounting for financial instruments and may also alleviate some of the operational concerns of implementing a new accounting model.
- The Board should reconsider the proposed look-through approach for assessing the contractual cash flows of beneficial interests in securitized financial assets. We believe the proposed approach is much more complex than current guidance and may not be operationally feasible.

- The Board should reconsider the proposed guidance requiring different methods for evaluating and recognizing hybrid financial assets and hybrid financial liabilities. We believe that an asymmetrical accounting model adds unnecessary accounting complexity.

The recommendations above are more fully described in our responses to the questions that are relevant to the FHLBanks, presented below.

Scope

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?

Yes. The FHLBanks agree with the scope of financial instruments included in the proposed Update.

Question 2: Do you agree with the industry-specific specialized guidance scope exceptions in paragraph 825-10-15-9? If not, why? What would you propose instead?

No. The proposed Update would require an entity that holds an investment in FHLBank stock to apply the impairment guidance in paragraph 825-10-35-18. Unlike the current impairment guidance in paragraph 942-325-35-3, which is specific to investments in FHLBank stock, the proposed guidance does not require the investor to consider a long-term view of the investment, nor does it require the investor to determine the value based on the ultimate recoverability of the investment rather than recognizing short term declines in value. Therefore, we believe that either the guidance in paragraph 825-10-35-18 should be revised to include these considerations or the impairment guidance for FHLBank stock in paragraph 942-325-35-3 should be retained.

Recognition

Question 4: Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?

Yes. The FHLBanks believe that a dual assessment framework (i.e., a contractual cash flow characteristics assessment and a business model assessment) is a reasonable structure to determine the recognition and measurement of financial instruments. In considering the contractual cash flow characteristics assessment, we believe it should be broad enough to allow most financial institutions' core products (e.g., loans), which are generally held for the collection of contractual cash flows, to qualify for a measurement category other than FV-NI. At the same time, the assessment should require financial instruments with higher risk profiles to be measured at FV-NI, which we believe is an appropriate residual category for such instruments. Therefore, we propose that the Board utilize the current "clearly and closely related" guidance in ASC 815-15-25-26 rather than the proposed SPPI test. In addition to being well-understood and consistently applied by entities, the "clearly and closely related" guidance appropriately identifies instruments with higher risk profiles. Currently, if an embedded derivative is not clearly and closely related to the host contract, an entity may either bifurcate the embedded derivative or elect the fair value option for the entire instrument. We believe that some instruments that contain embedded derivatives that would not require bifurcation under the current guidance would fail the SPPI test due to the complexity of the instrument rather than the risks. Entities should not be required to invest significant time and resources to interpret and apply new guidance when current guidance that sufficiently addresses the objectives of the proposed Update could be applied.

Additionally, we are concerned that the term “solely payments of principal and interest” is overly restrictive and implies no flexibility. Furthermore, it does not seem to be supported by the implementation guidance. For example, paragraphs 825-10-55-17 through 55-20 discuss scenarios where cash flows that are not “more than insignificantly different” from benchmark cash flows may be considered solely payments of principal and interest. Similarly, paragraph 825-10-55-21 discusses prepayment amounts that “substantially represent unpaid amounts of principal and interest.” To avoid misinterpretation and confusion, if the Board retains the SPPI test, we recommend that the Board use the term “substantially payments of principal and interest” rather than “solely payments of principal and interest” in the final Update.

Question 5: The proposed amendments define principal as the amount transferred by the holder at initial recognition. Should the definition of principal be expanded to include repayment of the principal amount at maturity or other settlement? If so, what instruments would fail (or pass) the contractual cash flow characteristics criterion as a result of this change?

No. The FHLBanks believe that principal should be defined as the amount transferred by the holder at initial recognition. If the definition were expanded to include amounts repaid at maturity or other settlement date, that amount may include compensation to the holder for various risks (e.g., prepayment risk, interest rate risk, liquidity risk). These items should not be included in the definition of principal.

Question 6: Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?

Yes. The FHLBanks believe that the illustrations provide sufficient guidance for entities to effectively apply the cash flow characteristics assessment. However, until entities have applied the guidance to their specific financial instruments and auditors and regulators have assessed entities’ interpretations of the application of the guidance to such instruments, the risk of inconsistency, and therefore restatement, will be high. As discussed in our response to question 4, we recommend that the final guidance utilize the current “clearly and closely related” criteria of ASC 815-15-25-26 rather than the proposed SPPI test for assessing the cash flow characteristics of a financial asset. This would mitigate the risk of inconsistent application and therefore also mitigate the risk of restatement due to differing interpretations of the proposed guidance.

Question 7: Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?

The FHLBanks are supportive of measuring a financial asset at FV-NI if the financial asset contains a contractual term that modifies the economic relationship between principal and interest more than an insignificant amount. However, as discussed in our response to Question 4, we believe that an assessment of the contractual cash flow characteristics of a financial asset should utilize the current “clearly and closely related” criteria of ASC 815-15-25-26, which is well-understood and operational. Additionally, to reduce the complexity of the current guidance, we recommend the Board revise paragraph 815-15-25-26(b) to require an entity to only consider reasonably possible scenarios rather than every possible scenario, consistent with the proposed guidance.

Question 8: Do the proposed amendments contain sufficient application guidance in paragraphs 825-10-55-17 through 55-20 on assessing a modified economic relationship? If not, why?

No. The FHLBanks believe that the application guidance should be improved. Paragraph 825-10-55-19 states, “an entity need not make a detailed assessment if it is clear with little or no analysis that the cash flows under assessment could or could not be more than insignificantly different from the cash flows of the benchmark instrument.” Paragraph 825-10-55-20 provides an example of a relationship for which it is not clear from the initial analysis performed whether the cash flows of the financial asset under assessment could or could not be more than insignificantly different from the cash flows of the benchmark instrument and therefore the entity should consider reasonably possible interest rate scenarios. This example should be expanded to illustrate the consideration of reasonably possible scenarios. Additionally, the implementation guidance should include an example of a relationship for which it is clear from the initial analysis that the cash flows of the financial asset under assessment could or could not be more than insignificantly different from the cash flows of the benchmark instrument.

We understand that principles-based guidance is designed to provide entities with the ability to use reasonable judgment in their application of the guidance. Accordingly, the Board is using terms such as “more than insignificantly different” and “substantially all” and, as discussed in our response to question 4, if the SPPI test is retained, we are recommending the term “substantially payments of principal and interest” be used rather than “solely payments of principal and interest.” However, for principles-based guidance to work effectively, auditors, regulators and financial statement users need to be cognizant of the judgment required and not arbitrarily apply the same standard across all entities or products.

We believe that auditors generally interpret “substantial” as 10% and accordingly, interpret “insignificant” as less than 10%, as may be evidenced by the interpretive guidance published by the major accounting firms. However, there may be instances in which substantial should be defined differently. For example, ASC 320-10-25-14(b) currently states the following:

...The sale of a security occurs after the entity has already collected a substantial portion (at least 85 percent) of the principal outstanding at acquisition due either to prepayments on the debt security or to scheduled payments on a debt security payable in equal installments (both principal and interest) over its term.

This guidance implies that 15% or less would represent an insubstantial amount. Note that this threshold is being utilized to determine classification and disclosure requirements and not the recognition of income. When determining if a financial asset contains a contractual term that modifies the economic relationship between principal and interest more than an insignificant amount in comparison to the cash flows of a benchmark instrument, an entity may choose to analogize to the following guidance from ASC 320-10-35-11, which addresses the definition of “more than minor” for a modification of a debt instrument:

A modification of a debt instrument shall be considered more than minor under the preceding paragraph if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument.

This guidance implies that 10% or greater would be more than minor (i.e., significant). Another area in which the FASB has defined significance is in ASC 815, *Derivatives and Hedging* (“ASC 815”). The following guidance is from ASC 815-10-15-111(c), “For purposes of assessing whether a market mechanism exists, an entity shall consider transaction costs to be significant if they are 10 percent or more of the fair value of the contract.” Additionally, the Codification

master glossary defines significant activities as those that generate 10% or more of combined revenue.

We believe that the guidance referenced above supports a 10% significance rule of thumb, however, it also illustrates that other amounts (e.g., 15%) may be an acceptable interpretation. Therefore, in addition to removing the 10% bright-line from the Codification by superseding Topic 320, we believe that the final guidance should clearly state that reasonable interpretations of significance may vary by product or entity. The FHLBanks are hopeful that emphasizing entities' needs to rely on their own judgments will decrease the burden of support for interpretations that may differ from 10%.

Question 9: For beneficial interests in securitized financial assets, the proposed amendments would require an entity to look through to the underlying pool of instruments in determining whether the tranche contains payments of solely principal and interest. Do you agree with this look-through approach? If not, why? What would you propose instead?

No. The FHLBanks believe that the look-through approach may not be operationally feasible, and for certain instruments, is unnecessary. For secured beneficial interests that are of high credit quality (e.g., those rated AA or better, consistent with many entities' current interpretation of the scope exception provided in ASC 325-40 (formerly EITF 99-20)), an entity should perform an assessment of the contractual cash flows based on the contractual terms of the security, consistent with its assessment of other financial assets. All other secured beneficial interests could be measured at FV-NI. Alternatively, if the Board prefers to retain the look-through approach (for consistency with IFRS), all other secured beneficial interests could be evaluated using the look-through approach.

If the Board retains the look-through approach, we believe the implementation guidance should be expanded to include an example of a beneficial instrument that fails the requirements of paragraph 825-10-55-26(b), regarding the characteristics of the underlying pool of instruments, and an example of when an entity would disregard the collateral supporting the underlying pool.

Question 10: Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?

Yes. The proposed amendments appropriately convey the principle associated with the business model assessment. Additionally, the proposed amendments dictate, and the Board confirms in paragraph BC 108, that the business model assessment should be performed after assessment of a financial asset's contractual cash flow characteristics. This is inconsistent with the guidance in International Financial Reporting Standards No. 9, *Financial Instruments* ("IFRS 9"), which requires that the business model assessment be performed prior to the assessment of the contractual cash flow characteristics.

We understand that if a financial asset fails the contractual cash flow characteristics criterion, then the asset is measured at FV-NI and it is not necessary to assess the business model criterion. However, even if a financial asset satisfies the contractual cash flow characteristics criterion, if an entity intends to sell the asset, then it is measured at FV-NI. Therefore, we believe the contractual cash flows criterion should be applied to only financial assets that an entity does not intend to sell. Additionally, we believe that an entity should be permitted to choose the order in which the criteria are applied. If the Board believes that it is necessary to prescribe an order, then we recommend that the business model criterion, which may be applied at the portfolio level, should be assessed prior to the contractual cash flows criterion,

which is perceived as a more labor-intensive assessment and is performed at the individual instrument level, consistent with IFRS 9.

Additionally, if an entity has reason to believe that a financial asset will fail the contractual cash flow characteristics criterion, then an entity should be able to classify the instrument at FV-NI without assessing the contractual cash flow characteristics of the asset. For example, if an entity has historically issued financial assets with features that would modify the economic relationship between principal and interest such that the assets have not satisfied the contractual cash flow characteristics criterion, then an entity may assume that similar instruments would also not satisfy the contractual cash flow characteristics criterion and therefore assessment is not necessary.

Question 11: Do the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the proposed guidance provided to describe those business models? If not, why?

Yes. The FHLBanks believe that the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models. Additionally, the FHLBanks agree with the proposed guidance provided to describe those business models.

Question 12: Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?

The notion of tainting should be replaced by a model that relies on principle and the exercise of professional judgment. The FHLBanks have historically supported and continue to support principles-based accounting. Accordingly, the FHLBanks believe that U.S. GAAP should express a clear objective and provide implementation guidance, rather than providing detailed rules.

Question 13: The proposed amendments would require loan commitments, a revolving line of credit, or a commercial letter of credit (the potential creditor) to be measured on the basis of the likelihood of exercise of the commitment and the classification of the underlying loan that would be made upon exercise of the commitment. Do you agree with the proposed classification of loan commitments? If not, why? What would you propose instead?

Yes. The FHLBanks agree that a loan commitment, a revolving line of credit, or a commercial letter of credit should be classified based on the likelihood of exercise and the anticipated classification of the underlying loan that will be funded. We also agree that if the likelihood of being funded is deemed to be remote, then the fee received, if any, should be recognized over the commitment period.

Initial Measurement

Question 14: Do you agree with the initial measurement principles for financial instruments? If not, why?

Yes. The FHLBanks agree with the initial measurement principles provided in paragraphs 825-10-30-1 through 30-6.

Subsequent Measurement

Question 15: The proposed amendments would eliminate the unconditional fair value option (for financial instruments within the scope of this proposed guidance) in existing U.S. GAAP and, instead, permit an entity to elect to measure at fair value, with all changes in fair value recognized in net income, all of the following:

- a. A group of financial assets and financial liabilities if the entity both:**
 - 1. Manages the net exposure relating to those financial assets and financial liabilities (which may be derivative instruments) on a fair value basis**
 - 2. Provides information on that basis to the reporting entity's management.**
- b. Hybrid financial liabilities that meet certain prescribed criteria.**
- c. Financial assets that meet the contractual cash flow characteristics criterion and are managed within a business model that has the objective of both holding financial assets to collect contractual cash flows and selling financial assets (in accordance with paragraph 825-10-25-25(b)).**

Do these options provide decision-useful information? If not, why?

No. The FHLBanks do not believe that eliminating the unconditional fair value option would necessarily result in decision-useful information. The FHLBanks generally manage the interest-rate risks associated with the acquisition and maintenance of a portfolio of financial assets and financial liabilities by entering into interest-rate exchange agreements, which also serve to limit the expected mismatches in duration. When possible, the FHLBanks designate hedging relationships as permitted under ASC 815. However, an FHLBank may elect the fair value option for financial assets and financial liabilities that either do not qualify for hedge accounting or may be at risk for not meeting hedge effectiveness requirements. This option is elected primarily in an effort to mitigate the potential income statement volatility that can arise from economic hedging relationships that use different measurement attributes in reporting related financial assets and liabilities.

The FHLBanks believe that utilizing the fair value option in these situations provides meaningful information to users as it more accurately represents the economics of their risk management activities. The FHLBanks understand the concerns about the potential for reduced comparability of financial statements that could arise by having some financial assets and financial liabilities measured at fair value through net income and other financial assets and financial liabilities measured using a different measurement method. However, we believe that appropriate disclosures would enable financial statement users to understand the impact of electing the fair value option. Additionally, we believe that a change in fair value associated with instrument-specific credit risk on financial liabilities measured at FV-NI should be included in net income. To the extent such change is material, an entity could disclose the amount and the reasons for the change in credit risk.

Additionally, the guidance states that derivative instruments may be included in a group of financial assets and financial liabilities eligible for the fair value option because the entity manages the net exposure of the instruments on a fair value basis. However, it is unclear whether all derivative instruments would qualify as a member of a group. Based on the proposed guidance, a group may be interpreted as any combination of financial instruments that contains both a financial asset and a financial liability. Under this interpretation, the scope of acceptable derivative instruments would be limited to derivatives that are consistently either an asset or a liability (e.g., an interest rate cap). If an entity manages the net exposure of a group of financial instruments that includes only debt that it has issued and an interest rate swap, presumably, at some point in time, both the debt and the interest rate swap would be financial liabilities. We do not believe it is the Board's intention to prohibit an entity from designating a derivative instrument whose fair value will change from an asset to a liability, or vice versa (i.e.,

an interest rate swap), in a group of financial instruments eligible for the fair value option. Accordingly, we believe the Board should clarify and provide examples of financial instruments (including derivative instruments) that qualify as a group of financial instruments.

The FHLBanks believe that future changes as a result of the Board's pending project on hedge accounting may significantly impact an entity's risk management strategies. We understand that the Board is considering relaxing the expectation of effectiveness from "highly" to "reasonable," which may enable more relationships to qualify for hedge accounting under ASC 815. Until that project is completed and entities are able to assess the impact of the entire amended financial instruments framework, we believe that the current unconditional fair value option should be retained.

Question 16: Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?

The FHLBanks generally agree that it is appropriate to measure financial liabilities both initially and subsequently at amortized cost, unless certain exceptions are met. However, as discussed in our response to question 15, we believe that in addition to the exceptions provided in the proposed Update there are other situations when an entity should be allowed the option of measuring a financial liability at FV-NI. Accordingly, we agree that a mixed-attribute measurement model is appropriate for both financial assets and financial liabilities and we believe that with adequate disclosure the users of an entity's financial statements will be able to understand the reasons and accounting implications of a mixed-attribute model.

Question 18: The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain, until the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?

No. The FHLBanks do not believe that providing an additional measurement category for an amortized cost asset subsequently identified for sale is consistent with the underlying principles of the proposed Update. We believe that if an entity has identified a financial asset for sale that was originally measured at amortized cost, then the reclassification guidance in paragraph 825-10-35-23(c) should be applied. Additionally, we believe that providing exceptions to the proposed reclassification guidance will result in unnecessary accounting complexities. Therefore, if the Board decides to provide an additional measurement category for an amortized cost asset subsequently identified for sale, then further guidance is necessary. For example, if an instrument's fair value is less than its net carrying amount at the time it is identified for sale and it is not immediately sold, should an entity record recoveries of impairment that are related to an improvement in expected credit losses consistent with the proposed guidance for recognizing credit losses? Should an entity record other recoveries of impairment losses (i.e., unrealized gains due to increases in fair value) to the extent that losses were recognized upon the reclassification? If an entity is unable to assert that it will continue to hold an asset for the collection of contractual cash flows, the proposed guidance provides that the entity may reclassify the asset and measure it at either FV-NI or at fair value with qualifying changes in fair value recognized in other comprehensive income ("FV-OCI"), depending on the current business model. Classification as FV-OCI would prohibit entities from recognizing unrealized gains on assets that have been identified for sale, but have not yet been sold.

Additionally, if the Board decides to provide an additional measurement category for an amortized cost asset subsequently identified for sale, then we recommend that the Board reconsider the requirement to present these assets as a separate line item on the face of the statement of financial position. This information can be appropriately provided to users of

financial statements, along with the information required by 825-10-50-38, in the notes without over-complicating the face of an entity's financial statements.

Question 21: Under the amendments in this proposed Update, hybrid financial assets would not be required to be analyzed for bifurcation under Subtopic 815-15 and would be assessed in their entirety on the basis of the proposed classification requirements. In contrast, hybrid financial liabilities would be assessed for bifurcation and separate accounting under Subtopic 815-15, and the financial liability host contract would be subject to the proposed amendments. Do you agree with this proposal? If not, why? What would you propose instead?

No. The FHLBanks do not believe that different accounting guidance for hybrid financial assets and hybrid financial liabilities should be provided. Rather, the guidance in Subtopic 815-15 should be applied to both hybrid financial assets and hybrid financial liabilities. The FHLBanks believe that most entities that issue or acquire hybrid financial instruments have a thorough understanding of the current "clearly and closely related" guidance in ASC 815-15-25-26 and that it has been consistently interpreted by the major accounting firms and consistently applied by entities.

Furthermore, as discussed above, we believe that an unconditional fair value option should also be provided for both hybrid financial assets and hybrid financial liabilities. While ASC 815-15-25-52 states that "it should be unusual that an entity would conclude that it cannot reliably separate an embedded derivative from its host contract," in practice, we believe that many entities elect the fair value option for these instruments, rather than be subject to the additional complexity of bifurcating an embedded derivative. Therefore, contrary to the views expressed in paragraph BC 203, requiring bifurcation of embedded derivatives in hybrid financial liabilities will add additional complexity to current accounting practices. As discussed above, the fair value option reduces accounting complexity and may mitigate the potential income statement volatility that can arise from economic hedging relationships that use different measurement attributes in reporting related financial assets and liabilities. In instances where an entity does not manage its hybrid financial liabilities in a business model consistent with FV-NI, we believe that it is appropriate for an entity to follow the accounting guidance in ASC 815-15-25-5, which should be retained in the final Update.

Question 22: The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?

Yes. The FHLBanks agree with the proposed amendments requiring reclassification of financial assets when a change in business model occurs provided in paragraph 825-10-35-23 of the proposed Update. We believe that the accounting classification of financial instruments should align with the business strategy of the entity, which may change subsequent to the acquisition or issuance of a financial instrument. Accordingly, we believe that the final Update should retain the requirement to reclassify either individual financial instruments or an entire portfolio to the appropriate category if the business strategy of an entity warrants such a change. Furthermore, consistent with ASC 320-10-25-6, we believe there are other circumstances where classification changes may be appropriate, which include, but are not limited to: deterioration in the issuer's creditworthiness, changes in statutory or regulatory requirements and changes in capital requirements. We recommend that the Board amend Section 825-10-35 to include these as additional changes in circumstances that would justify the reclassification of financial assets. Consistent with a change in business model that requires reclassification, the guidance could require that a reclassification for these reasons must also be determined by an entity's senior

management as a result of external or internal change, must be significant to the entity's operations, and must be demonstrable to external parties.

The FHLBanks believe that both changes in the business model and a change in intent to sell a financial asset measured at amortized cost should be accounted for in a similar manner and that both instances should be rare. Furthermore, as discussed in our response to question #18, we do not believe that the proposed amendments provide sufficient guidance for the subsequent accounting treatment of financial assets initially measured at amortized cost that are subsequently identified for sale.

Disclosures

Question 29: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?

With the exception of the requirement to disclose an "all-in-cost-to-service rate" for core deposit liabilities, the FHLBanks agree with the proposed disclosure requirements. The glossary defines the all-in-cost-to-service rate as "a rate that includes the net direct costs to service core deposit liabilities, including interest paid on those deposits and the expense of maintaining a branch network minus fee income earned on those deposit accounts." We believe that including the expense of maintaining a branch network may impair the comparability of the disclosure. For example, an entity that does not maintain a branch network may appear to have a lower cost to service its deposits than an entity with a significant branch network. Alternatively, an entity that does not maintain a branch network may choose to include other operating expenses in an attempt to address the concept of an "all-in-cost-to-service." To provide a more consistent, and therefore more comparable and meaningful measurement, we suggest the Board consider requiring disclosure of the weighted average interest rates paid on average outstanding core deposits consistent with the requirements of SEC Industry Guide 3 – Statistical Disclosure by Bank Holding Companies.

Transition and Open Effective Date Information

Question 30: Should an entity be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option under the proposed requirements? If not, why?

Yes. However, in order to promote consistency and comparability among entities, the Board should not permit entities to adopt other provisions of this guidance prior to the mandatory effective date.

Question 32: How much time is needed to implement the proposed guidance?

The FHLBanks are aware that the Board is considering requiring that the proposed Update and the proposed guidance on credit losses be effective concurrently. We believe we would need a minimum of two years to concurrently plan for and implement the final ASUs. In developing this estimate, we considered the complexity of the proposed guidance; the potential information system and financial reporting changes that may need to be developed, implemented, and tested prior to adoption of the new guidance; and the time needed to develop and test internal controls.

Question 33: Are the transition provisions in this proposed Update operable? If not, why?

Yes. The FHLBanks are supportive of the transition provision for a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective.

We thank the Board for its consideration of our views and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at (412) 288-5123.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward V. Weller", with a long horizontal flourish extending to the right.

Edward V. Weller
Controller
Federal Home Loan Bank of Pittsburgh
(On behalf of the Federal Home Loan Banks as Chair of the Controllers' Committee)